Ontario

Ministry *of* Finance

PUBLIC ACCOUNTS *of* ONTARIO

2011–2012

FINANCIAL STATEMENTS OF GOVERNMENT BUSINESS ENTERPRISES, TRUSTS AND MISCELLANEOUS STATEMENTS

Volume 2C

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RESPONSIBLE MINISTRY FOR GOVERNMENT BUSINESS ENTERPRISES, ORGANIZATIONS, TRUSTS & MISCELLANEOUS FINANCIAL STATEMENTS

Ministry of Agriculture, Food and Rural Affairs
    AgriCorp
    Agricultural Research Institute of Ontario

Ministry of Attorney General
    Legal Aid Ontario
    The Public Guardian and Trustee for the Province of Ontario

Ministry of Economic Development and Trade
    Ontario Capital Growth Corporation
    Ontario Immigrant Investor Corporation

Ministry of Education
    Education Quality and Accountability Office
    Ontario Educational Communications Authority (TVO)
    Ontario French-language Educational Communications Authority

Ministry of Energy
    Hydro One Inc.
    Independent Electricity System Operator
    Ontario Energy Board
    Ontario Power Authority
    Ontario Power Generation Inc.

Ministry of Environment
    Ontario Clean Water Agency

Ministry of Finance
    Deposit Insurance Corporation of Ontario
    Liquor Control Board of Ontario
    Losses deleted from the accounts
    Motor Vehicle Accident Claims Fund
    Ontario Electricity Financial Corporation
    Ontario Financing Authority
    Ontario Lottery and Gaming Corporation
    Ontario Racing Commission
    Ontario Securities Commission
    Pension Benefits Guarantee Fund
    Provincial Judges Pension Fund
    Revenue remissions

Ministry of Government Services
    Ontario Pension Board

Ministry of Infrastructure
    Ontario Infrastructure and Lands Corporation
    General Real Estate Portfolio
    Toronto Waterfront Revitalization Corporation

RESPONSIBLE MINISTRY FOR GOVERNMENT BUSINESS ENTERPRISES, ORGANIZATIONS, TRUSTS & MISCELLANEOUS FINANCIAL STATEMENTS

Ministry of Health and Long-Term Care
  Cancer Care Ontario
  eHealth Ontario
  Local Health Integration Network – Central
  Local Health Integration Network – Central East
  Local Health Integration Network – Central West
  Local Health Integration Network – Champlain
  Local Health Integration Network – Erie St. Clair
  Local Health Integration Network – Hamilton Niagara Haldimand Brant
  Local Health Integration Network – Mississauga Halton
  Local Health Integration Network – North East
  Local Health Integration Network – North Simcoe Muskoka
  Local Health Integration Network – North West
  Local Health Integration Network – South East
  Local Health Integration Network – South West
  Local Health Integration Network – Toronto Central
  Local Health Integration Network – Waterloo Wellington
  Ontario Agency for Health Protection & Promotion
  Ornge

Ministry of Labour
  Workplace Safety and Insurance Board

Ministry of Municipal Affairs and Housing
  Ontario Mortgage and Housing Corporation

Ministry of Natural Resources
  Algonquin Forestry Authority
  Forest Renewal Trust

Ministry of Northern Development and Mines
  Northern Ontario Heritage Fund Corporation
  Ontario Northland Transportation Commission

Ministry of Tourism and Culture
  Metropolitan Toronto Convention Centre Corporation
  Niagara Parks Commission
  Ontario Council for the Arts
  Ontario Place Corporation
  Ontario Science Centre
  Ontario Tourism Marketing Partnership Corporation
  Ontario Trillium Foundation
  Ottawa Convention Centre
  Royal Ontario Museum

Ministry of Transportation
  Metrolinx

A GUIDE TO PUBLIC ACCOUNTS

1. SCOPE OF THE PUBLIC ACCOUNTS

The 2011-2012 Public Accounts of the Province of Ontario comprise the **Annual Report and Consolidated Financial Statements** and three volumes:

Volume 1 contains ministry statements and detailed schedules of debt and other items. The ministry statements reflect the financial activities of the government's ministries on the accrual basis of accounting, providing a comparison of appropriations with actual spending. Ministry expenses include all expenses that are subject to appropriation approved by the Legislative Assembly, but exclude adjustments arising from consolidation of government organizations whose expenses are not appropriated.

Volume 2 contains the financial statements of Government Organizations and Business Enterprises that are part of the government's reporting entity and other miscellaneous financial statements.

Volume 3 contains the details of payments made by ministries to vendors and transfer payment recipients that are not deemed to be prohibited by the *Freedom of Information and Protection of Privacy Act.*

2. A GUIDE TO VOLUME 2 OF THE PUBLIC ACCOUNTS

The financial statements of the selected crown corporations, boards and commissions are for fiscal periods ending within the Province's own fiscal period April 1, 2011 to March 31, 2012. They are presented in the same detail as the approved, audited financial statements and as nearly as possible in the same form. The statements have been presented in the order shown in the Table of Contents. In addition, a listing is provided which groups the crown corporations, boards and commissions by ministerial responsibility.

GOVERNMENT BUSINESS ENTERPRISES

HYDRO ONE INC.
MANAGEMENT'S REPORT

The Consolidated Financial Statements, Management's Discussion and Analysis (MD&A) and related financial information presented in this Annual Report have been prepared by the management of Hydro One Inc. (Hydro One or the Company). Management is responsible for the integrity, consistency and reliability of all such information presented. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada and applicable securities legislation. The MD&A has been prepared in accordance with National Instrument 51-102, Part 5.

The preparation of the Consolidated Financial Statements and information in the MD&A involves the use of estimates and assumptions based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience, current conditions and various other assumptions believed to be reasonable in the circumstances, with critical analysis of the significant accounting policies followed by the Company as described in Note 2 to the Consolidated Financial Statements. The preparation of the Consolidated Financial Statements and the MD&A includes information regarding the estimated impact of future events and transactions. The MD&A also includes information regarding sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from the present assessment of this information because future events and circumstances may not occur as expected. The Consolidated Financial Statements and MD&A have been properly prepared within reasonable limits of materiality and in light of information up to February 10, 2012.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal control and internal audit. The system of internal control includes a written corporate conduct policy; implementation of a risk management framework; effective segregation of duties and delegation of authorities; and sound and conservative accounting policies that are regularly reviewed. This structure is designed to provide reasonable assurance that assets are safeguarded and that reliable information is available on a timely basis. In addition, internal and disclosure controls have been documented, evaluated, tested and identified consistent with National Instrument 52-109 (Bill 198). The effectiveness of these internal controls is evaluated and findings are reported to management and the Audit and Finance Committee of the Hydro One Board of Directors, as required.

The Consolidated Financial Statements have been examined by KPMG LLP, independent external auditors appointed by the Hydro One Board of Directors. The external auditors' responsibility is to express their opinion on whether the Consolidated Financial Statements are fairly presented in accordance with accounting principles generally accepted in Canada. The Independent Auditors' Report outlines the scope of their examination and their opinion.

The Hydro One Board of Directors, through its Audit and Finance Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Finance Committee of Hydro One met periodically with management, the internal auditors and the external auditors to satisfy itself that each group had properly discharged its respective responsibility and to review the Consolidated Financial Statements before recommending approval by the Board of Directors. The external auditors had direct and full access to the Audit and Finance Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of the financial reporting and the effectiveness of the system of internal controls.

The Company's President and Chief Executive Officer and Executive Vice-President and Chief Financial Officer have certified Hydro One's annual Consolidated Financial Statements and annual MD&A filed under provincial securities legislation, related disclosure controls and procedures and the design and effectiveness of related internal controls over financial reporting pursuant to National Instrument 52-109.

On behalf of Hydro One Inc.'s management:

Laura Formusa
President and Chief Executive Officer

Sandy Struthers
Executive Vice-President and Chief Financial Officer

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HYDRO ONE INC.
INDEPENDENT AUDITORS' REPORT

To the Shareholder of Hydro One Inc.

We have audited the accompanying Consolidated Financial Statements of Hydro One Inc., which comprise the consolidated balance sheets as at December 31, 2011 and December 31, 2010, the consolidated statements of operations and comprehensive income, retained earnings, accumulated other comprehensive loss, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of Hydro One Inc. as at December 31, 2011 and December 31, 2010, and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
February 10, 2012

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HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Year ended December 31 (Canadian dollars in millions, except per share amounts)	**2011**	**2010**
Revenues		
Transmission *(Note 16)*	1,389	1,307
Distribution *(Note 16)*	4,019	3,754
Other	63	63
	5,471	5,124
Costs		
Purchased power *(Note 16)*	2,628	2,474
Operation, maintenance and administration *(Note 16)*	1,092	1,078
Depreciation and amortization *(Note 3)*	616	583
	4,336	4,135
Income before financing charges and provision for payments in lieu of corporate income taxes	1,135	989
Financing charges *(Note 4)*	344	342
Income before provision for payments in lieu of corporate income taxes	791	647
Provision for payments in lieu of corporate income taxes *(Notes 5 and 16)*	150	56
Net income	641	591
Other comprehensive income	-	-
Comprehensive income	641	591
Basic and fully diluted earnings per common share *(Canadian dollars) (Note 15)*	6,228	5,727

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year ended December 31 (Canadian dollars in millions)	**2011**	**2010**
Retained earnings, January 1	2,354	1,791
Net income	641	591
Dividends *(Note 15)*	(168)	(28)
Retained earnings, December 31	2,827	2,354

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Year ended December 31 (Canadian dollars in millions)	**2011**	**2010**
Accumulated other comprehensive loss, January 1	(10)	(10)
Other comprehensive loss	-	-
Accumulated other comprehensive loss, December 31	(10)	(10)

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS

December 31 (Canadian dollars in millions)	**2011**	**2010**
Assets		
Current assets:		
Cash	-	33
Short-term investments	228	139
Accounts receivable (net of allowance for doubtful accounts - $18 million; 2010 - $25 million) *(Note 16)*	961	911
Regulatory assets *(Note 8)*	24	42
Materials and supplies	25	21
Future income tax assets *(Note 5)*	19	35
Other	20	8
	1,277	1,189
Fixed assets *(Note 6)*:		
Fixed assets in service	21,008	19,767
Less: Accumulated depreciation	7,679	7,247
	13,329	12,520
Construction in progress	1,436	1,394
Future use land, components and spares	138	139
	14,903	14,053
Other long-term assets:		
Regulatory assets *(Note 8)*	1,064	1,013
Deferred pension asset *(Note 12)*	466	460
Long-term investment	250	249
Intangible assets (net of accumulated amortization) *(Note 7)*	224	197
Goodwill	133	133
Future income tax assets *(Note 5)*	17	19
Other	34	9
	2,188	2,080
Total assets	18,368	17,322

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
CONSOLIDATED BALANCE SHEETS (continued)

December 31 (Canadian dollars in millions)	**2011**	**2010**
Liabilities		
Current liabilities:		
Bank indebtedness	39	-
Accounts payable and accrued charges *(Notes 13 and 16)*	1,071	884
Regulatory liabilities *(Note 8)*	25	72
Accrued interest	85	84
Long-term debt payable within one year *(Note 9)*	600	500
	1,820	1,540
Long-term debt *(Note 9)*	7,399	7,278
Other long-term liabilities:		
Employee future benefits other than pension *(Note 12)*	1,040	980
Regulatory liabilities *(Note 8)*	635	540
Future income tax liabilities *(Note 5)*	758	693
Environmental liabilities *(Note 13)*	235	287
Asset retirement obligations *(Note 14)*	15	11
Long-term accounts payable and other liabilities	12	12
	2,695	2,523
Total liabilities	11,914	11,341
Contingencies and commitments *(Notes 18 and 19)*		
Shareholder's equity *(Note 15)*		
Preferred shares (authorized: unlimited; issued: 12,920,000)	323	323
Common shares (authorized: unlimited; issued: 100,000)	3,314	3,314
Retained earnings	2,827	2,354
Accumulated other comprehensive loss	(10)	(10)
Total shareholder's equity	6,454	5,981
Total liabilities and shareholder's equity	18,368	17,322

See accompanying notes to Consolidated Financial Statements.

On behalf of the Board of Directors:

James Arnett
Chair

Michael J. Mueller
Chair, Audit and Finance Committee

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HYDRO ONE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 (Canadian dollars in millions)	**2011**	**2010**
Operating activities		
Net income	641	591
Environmental expenditures	(16)	(17)
Adjustments for non-cash items:		
Depreciation and amortization (excluding removal costs)	550	526
Regulatory asset and liability accounts	47	(10)
Gain on interest rate swap agreements	(12)	(17)
Future income taxes	(12)	(8)
Asset retirement obligation	4	4
Other	9	1
	1,211	1,070
Changes in non-cash balances related to operations *(Note 17)*	196	94
Net cash from operating activities	1,407	1,164
Financing activities		
Long-term debt issued	700	1,500
Long-term debt retired	(500)	(600)
Short-term notes payable	-	(55)
Dividends paid	(168)	(28)
Other	(4)	-
Net cash from financing activities	28	817
Investing activities		
Capital expenditures		
Fixed assets	(1,371)	(1,557)
Intangible assets	(76)	(13)
	(1,447)	(1,570)
Long-term investments	-	(250)
Other assets	29	37
Net cash used in investing activities	(1,418)	(1,783)
Net change in cash and cash equivalents	17	198
Cash and cash equivalents, January 1	172	(26)
Cash and cash equivalents, December 31 *(Note 17)*	189	172

See accompanying notes to Consolidated Financial Statements.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

Hydro One Inc. (Hydro One or the Company) was incorporated on December 1, 1998, under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the Province). The principal businesses of Hydro One are the transmission and distribution of electricity to customers within Ontario. These businesses are regulated by the Ontario Energy Board (OEB).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries: Hydro One Networks Inc. (Hydro One Networks), Hydro One Remote Communities Inc. (Hydro One Remote Communities), Hydro One Brampton Networks Inc. (Hydro One Brampton), Hydro One Telecom Inc., Hydro One Lake Erie Link Management Inc. and Hydro One Lake Erie Link Company Inc.

Basis of Accounting

The Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in Canada.

Rate-setting

The rates of the Company's electricity transmission and distribution businesses are subject to regulation by the OEB.

Transmission

To achieve the necessary funding in support of required infrastructure, Hydro One Networks filed a transmission rate application for 2009 and 2010 rates in September 2008. The application sought OEB approval for revenue requirements of approximately $1,233 million and $1,341 million, based on returns on equity of 8.53% and 9.35% for 2009 and 2010, respectively. On May 28, 2009, the OEB issued its decision with reasons in respect of this application. The decision, which was effective July 1, 2009, resulted in reduced revenue requirements of $1,180 million and $1,240 million in 2009 and 2010, respectively, primarily due to a lower approved return on equity. The OEB decision disallowed development capital expenditures of $180 million for 2010, but agreed to reconsider the projects if additional evidence was provided. On September 4, 2009, Hydro One Networks filed the additional evidence on two projects amounting to approximately $160 million in capital expenditures. The OEB approved the supplemental evidence for inclusion in Hydro One Networks' 2010 rates. This resulted in a revised revenue requirement of $1,257 million for 2010, on the basis of an updated return on equity of 8.39% for 2010.

On May 19, 2010 Hydro One Networks submitted an application for 2011 and 2012 transmission rates in continued support of its aging critical infrastructure and the supply mix objectives for generation, including off-coal initiatives and initiation of investments in support of the Green Energy Act (GEA). This application sought the approval of revenue requirements of approximately $1,446 million for 2011 and $1,547 million for 2012.

On December 23, 2010, the OEB issued its decision with reasons effective January 1, 2011, which resulted in approved revenue requirements of $1,346 million for 2011 and $1,658 million for 2012. The approved 2012 revenue requirement was higher than that applied for, reflecting OEB direction to Hydro One to adopt a modified International Financial Reporting Standards (IFRS) cost capitalization policy. This adjustment was subsequently reversed by the OEB when it approved the use of United States (US) Generally Accepted Accounting Principles (GAAP) for rate-setting purposes beginning January 1, 2012.

Distribution

In late 2008, Hydro One Networks filed an incentive regulation application for 2009 rates, with an update filed in January 2009, to reflect the impact of a previous 2008 distribution rate decision. The application was filed on the basis of the OEB's third-generation Incentive Regulation Mechanism (IRM) process, which adjusts rates by considering inflation, productivity targets, significant events outside the control of management and a capital adjustment mechanism to recover costs for new incremental capital coming into service beyond a prescribed threshold. On May 13, 2009, the OEB released its decision with reasons approving the basic IRM increase and a rate adder of $1.65 per month per metered customer for smart meters. The revised rates were approved effective May 1, 2009, with an implementation date of June 1, 2009.

In 2009, Hydro One Networks filed a cost-of-service application with the OEB for 2010 and 2011 distribution rates, reflecting the Company's plan to invest in its network assets to meet objectives regarding public and employee safety; regulatory and legislative compliance; maintenance of system security and reliability of system growth requirements; and investments required by the GEA. The application sought OEB approval of revenue requirements of approximately $1,150 million and $1,264 million for 2010 and 2011, respectively.

On April 9, 2010, the OEB released its decision with reasons approving revenue requirements of $1,146 million for 2010 and $1,236 million for 2011 to support the necessary work programs, the implementation of the GEA and the installation of smart meters. The OEB also approved certain distribution-related regulatory account balances sought by Hydro One Networks in its application, including retail settlement variance accounts, Regulatory Asset Recovery Account I, retail cost variance accounts and smart meters. The OEB ordered that the approved balances be aggregated into a single regulatory account (Rider 6) to be recovered over an 18-month period from May 1, 2010 to December 31, 2011.

On November 7, 2008, Hydro One Brampton filed an application for 2009 rates on the basis of the OEB's second-generation IRM policy. On March 13, 2009, the OEB released it decision with reasons. The revised rates, including an adder of $1 per month per metered customer for smart meters, were approved for implementation effective May 1, 2009.

On November 6, 2009, Hydro One Brampton filed an application for 2010 distribution rates on the basis of the OEB's second-generation IRM process. On April 13, 2010, the OEB released its decision regarding this rate application approving Hydro One Brampton's submission on the basis of the OEB's cost-of-capital and second-generation IRM policies. The revised rates had an implementation date of May 1, 2010.

On June 30, 2010, Hydro One Brampton submitted a 2011 cost-of-service application, which was subsequently adjusted on September 2, 2010 to reflect the deferral of the adoption of modified IFRS until January 1, 2012. The updated submission was filed on November 8, 2010 and requested OEB approval for a revenue requirement of approximately $63 million. On April 4, 2011, the OEB issued a decision with reasons that reduced the requested revenue requirement. This reduction included the impact of reductions to operation, maintenance and administration costs. The revised rates were approved with an effective date of January 1, 2011 and an implementation date of May 1, 2011. Included in the rates is an adder of $1.52 per month per metered customer for smart meters and approval of a GEA funding adder of $0.02 per month per metered customer.

On November 4, 2009, Hydro One Remote Communities filed an application for 2010 distribution rates under the OEB's third-generation IRM, seeking approval of an increase to basic rates for the distribution and generation of electricity. The increase reflects the standard inflationary adjustments incorporated in the third-generation IRM applications. On April 14, 2010, the OEB issued a decision with reasons regarding this rate application, approving revised rates with an effective date and implementation date of May 1, 2010.

On October 15, 2010, Hydro One Remote Communities filed an application for 2011 distribution rates on the basis of the OEB's third-generation IRM seeking approval for an increase of approximately 0.4% to basic rates for the distribution and generation of electricity effective May 1, 2011. On March 28, 2011, the OEB issued its decision with reasons approving the application. The revised rates were approved with an effective date and implementation date of May 1, 2011.

Regulatory Accounting

The OEB has the general power to include or exclude costs, revenues, losses or gains in the rates of a specific period, resulting in a change in the timing of accounting recognition from that which would have applied in an unregulated company. Such change in timing involves the application of rate-regulated accounting, giving rise to the recognition of regulatory assets and liabilities. The Company's regulatory assets represent certain amounts receivable from future customers and costs that have been deferred for accounting purposes because it is probable that they will be recovered in future rates. In addition, the Company has recorded regulatory liabilities which

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

represent amounts for expenses incurred in different periods than would be the case had the Company been unregulated. The Company continually assesses the likelihood of recovery of each of its regulatory assets and continues to believe that it is probable that the OEB will factor its regulatory assets and liabilities into the setting of future rates. If, at some future date, the Company judges that it is no longer probable that the OEB will include a regulatory asset or liability in future rates, the appropriate carrying amount will be reflected in results of operations in the period that the assessment is made. Specific regulatory assets and liabilities are disclosed in Note 8.

Revenue Recognition and Allocation

Transmission revenues are collected through OEB-approved rates, which are based on an approved revenue requirement that includes a rate of return. Such revenue is recognized as power is transmitted and delivered to customers.

Distribution revenues attributable to the delivery of electricity are based on OEB-approved distribution rates and are recognized as electricity is delivered to customers. The Company estimates the monthly revenue for the period based on wholesale power purchases because customer meters are not generally read at the end of each month. Unbilled revenue included within accounts receivable as at December 31, 2011 amounted to $544 million (2010 - $493 million).

Distribution revenue also includes an amount relating to rate protection for rural residential and remote customers, which is received from the Independent Electricity System Operator (IESO) based on a standardized customer rate that is approved by the OEB. The current legislation provides rate protection for prescribed classes of rural residential and remote consumers by reducing the electricity rates that would otherwise apply.

Segment revenues for transmission, distribution and other also include revenue related to sales of other services and equipment. Such revenue is recognized as services are rendered or as equipment is delivered.

Corporate Income and Capital Taxes

Under the *Electricity Act, 1998*, Hydro One is required to make payments in lieu of corporate taxes to the Ontario Electricity Financial Corporation (OEFC). These payments are calculated in accordance with the rules for computing income and taxable capital and other relevant amounts contained in the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario) (*Corporations Tax Act* (Ontario), prior to 2009) as modified by the *Electricity Act, 1998*, and related regulations.

Current Income Taxes

The provision for current taxes and the assets and liabilities recognized for the current and prior periods are measured at the amounts receivable or payable from/to the OEFC.

Future Income Taxes

Future income taxes are provided for using the liability method and are recognized on temporary differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit.

Future income tax liabilities are generally recognized on all taxable temporary differences and future tax assets are recognized to the extent that it is more likely than not that they will be realized from taxable profits available against which deductible temporary differences can be utilized.

Future income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Future income taxes are charged or credited to the Consolidated Statement of Operations and Comprehensive Income.

The carrying amount of future income tax assets is reviewed at each balance sheet date and reduced to the extent that all or part of the future income tax assets have not met the "more likely than not" criterion. Previously

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

unrecognized future income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become more likely than not that they will be recovered from future taxable profits.

The Company has recognized regulatory assets and liabilities which correspond to future income tax liabilities and assets that are expected to be recovered from or repaid to the customers in the rate-setting process.

Materials and Supplies

Materials and supplies represent consumables, spare parts and construction material held for internal construction and maintenance of fixed assets. These assets are carried at the lower of average cost or net realizable value.

Fixed Assets

Fixed assets are capitalized at cost, which comprises materials, labour, engineering, overheads, depreciation on service equipment and the OEB-approved allowance for funds used during construction applicable to capital construction activities within regulated businesses, or interest applicable to capital construction activities within unregulated businesses.

Fixed assets in service consist of transmission, distribution, communication, administration and service assets and easements. Fixed assets also include future use assets such as land; major components and spare parts; and capitalized development costs associated with deferred capital projects.

Transmission

Transmission assets include assets used for the transmission of high-voltage electricity such as transmission lines; support structures; foundations; insulators; connecting hardware and grounding systems; and assets used to step up the voltage of electricity from generating stations for transmission and to step down voltages for distribution, such as transformers, circuit breakers and switches.

Distribution

Distribution assets comprise assets related to the distribution of low-voltage electricity, including lines, poles, switches, transformers, protective devices and metering systems.

Communication

Communication assets include the fibre-optic and microwave radio system, optical ground wire, towers, telephone equipment and associated buildings.

Administration and Service

Administration and service assets include administrative buildings, major computer systems, personal computers, transport and work equipment, tools, vehicles and other minor fixed assets.

Easements

Easements include statutory rights of use for transmission corridors and abutting lands granted under the *Reliable Energy and Consumer Protection Act, 2002*, as well as other amounts related to land access rights.

Intangible Assets

Intangible assets represent computer applications software and other assets. These assets are capitalized at cost, which comprise materials, purchased software, labour and consulting, engineering, overheads and the OEB-approved allowance for funds used during construction applicable to capital activities within regulated businesses, or interest applicable to capital activities within unregulated businesses.

Construction and Development in Progress

Overhead costs, including shared corporate functions and services costs, are capitalized on a fully allocated basis, consistent with an OEB-approved methodology. Financing costs are capitalized on rate-regulated fixed assets under

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

construction and intangible assets under development, based on the OEB's approved allowance for funds used during construction (2011 - 4.20%; 2010 - 4.34%).

Depreciation and Amortization

The capital costs of fixed and intangible assets primarily consisting of applications software, are depreciated or amortized on a straight-line basis, except for transport and work equipment, which is depreciated on a declining balance basis.

The Company periodically initiates an external review of its fixed asset and intangible asset depreciation and amortization rates, as required by the OEB. The last review resulted in changes to rates effective January 1, 2007. A summary of depreciation and amortization rates for the various classes of assets is included below:

	Depreciation and amortization rates (%)	
	Range	Average
Transmission	1% - 3%	2%
Distribution	1% - 13%	2%
Communication	1% - 13%	5%
Administration and service	1% - 20%	8%

The costs of intangible assets are primarily included within the administration and service classification above and these assets are amortized on a straight-line basis. Amortization rates for computer applications software and other intangible assets range from 9% to 11%.

Depreciation rates for easements are based on their contract lives. The majority of easements are held in perpetuity and are not depreciated.

In accordance with group depreciation practices, the original cost of fixed and intangible assets that are normally retired is charged to accumulated depreciation or amortization, with no gain or loss reflected in current results of operations. Gains and losses on sales of fixed assets and losses on premature retirements are charged to results of operations as adjustments to depreciation or amortization expense. Depreciation expense also includes the costs incurred to remove fixed assets where no asset retirement obligation has been recorded.

The estimated service lives of fixed or intangible assets are subject to periodic review. Any changes arising from such a review are implemented on a remaining service life basis consistent with their inclusion in electricity rates.

Goodwill

Goodwill represents the cost of acquired local distribution companies in excess of fair value of the net identifiable assets purchased and is evaluated for impairment on an annual basis, or more frequently if circumstances require. Goodwill impairment is assessed based on a comparison of the fair value of the reporting unit to the underlying carrying value of the reporting unit's net assets, including goodwill, with any write-down of the carrying value of goodwill being charged against the results of operations. The Company has determined that goodwill is not impaired. All of the goodwill is attributable to the Distribution Business segment.

Financial Instruments

Recognition and Measurement

All financial instruments are classified into one of the following five categories: held-to-maturity investments; loans and receivables; held-for-trading; other liabilities; or available-for-sale. All financial instruments, including derivatives, are carried at fair value on the Consolidated Balance Sheet, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in financing charges in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income (OCI) until the instrument is derecognized or impaired. The Company has classified its financial instruments as follows:

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Assets / Liabilities	Classification	Measurement
Cash	Held-for-trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Short-term investments	Held-to-maturity / Held-for-trading	Amortized cost / fair value
Long-term investment	Held-to-maturity	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Accounts payable	Other liabilities	Amortized cost
Short-term notes payable	Other liabilities	Amortized cost
Long-term debt (unless otherwise specified)	Other liabilities	Amortized cost
Fixed-to-floating interest-rate swaps	Not classified	Fair value
Medium-Term Note (MTN) Series 14 Note	Not classified	Fair value
$500 million of MTN Series 19 Note	Not classified	Fair value
$250 million of MTN Series 21 Note	Not classified	Fair value
Floating-to-fixed interest-rate swaps	Held-for-trading	Fair value

Short-term investments are generally classified as held-to-maturity. However, certain short-term investments are classified as held-for-trading when the Company has no intent to hold a pool of assets to their maturity. Documentation of the short-term investment classification is made on inception.

Certain tranches of long-term debt are designated as part of a hedging relationship, as in the case of the MTN Series 14 Note, $500 million of the MTN Series 19 Note and $250 million of the MTN Series 21 Note. These long-term debt, and related hedging instruments, are not classified.

All financial instrument transactions are recorded at trade date.

Discounts and Premiums on Debt

Discounts and premiums are amortized over the period of the related debt using the effective interest method.

Transaction Costs

Transaction costs for financial assets and liabilities that are classified as other than held-for-trading are added to the carrying value of the asset or liability and then amortized over the expected life of the instrument using the effective interest method.

Derivative Instruments and Hedge Accounting

All derivative instruments, including embedded derivatives, are carried at fair value on the Consolidated Balance Sheet unless exempted from derivative treatment as a normal purchase and sale or when it is deemed that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The Company does not have any significant embedded derivatives in contracts that require separate accounting and disclosure.

All changes in fair value are recorded in financing charges unless cash flow hedge accounting is used, in which case changes in fair value are recorded in OCI to the extent that the hedge is effective. The gain or loss related to the ineffective portion, if any, is recorded in financing charges.

The Company does not engage in derivative trading or speculative activities.

The Company periodically develops hedging strategies for execution taking into account risk management objectives. At the inception of a hedging relationship, the Company formally documents the hedging relationship between the hedged item and the hedging instrument, its risk management objective for establishing the hedging relationship, the nature of the specific risk exposure being hedged, and the method for assessing effectiveness of the hedging relationship. The Company also assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging items that are used are effective in offsetting changes in fair values or cash flows of the hedged items.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Comprehensive Income

Comprehensive income is comprised of the Company's net income and OCI. OCI includes the amortization of net unamortized hedging losses on discontinued cash flow hedges and the change in fair value on existing cash flow hedges to the extent that the hedge is effective. The Company amortizes its unamortized hedging losses on discontinued cash flow hedges to financing charges using the effective interest method over the term of the hedged debt.

Financial Instrument Disclosures

All financial instruments measured at fair value are categorized into one of the three levels of hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical instruments in an active market;
Level 2 – inputs do not have quoted prices but are observable for the asset or liability, either directly or indirectly; and
Level 3 – inputs that are not based on observable market data.

The fair market value of the Company's long-term debt is determined using the fair value hierarchy levels disclosed in Note 10.

Employee Future Benefits

Employee future benefits provided by Hydro One include pension, group life insurance, health care and long-term disability.

In accordance with the OEB's rate orders, pension costs are recorded when employer contributions are paid to the pension fund in accordance with the *Pension Benefits Act* (Ontario). Actuarial valuations are conducted at least every three years. Pension costs are also calculated on an accrual basis. Pension costs are actuarially determined using the projected benefit method prorated on service and based on assumptions that reflect management's best estimate of the effect of future events, including future compensation increases, on the actuarial present value of accrued pension benefits. Pension plan assets, consisting primarily of listed equity securities as well as corporate and government debt securities, are valued using fair values. Past service costs from plan amendments and all actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefits other than pension are recorded on an accrual basis. Costs are determined by independent actuaries using the projected benefit method prorated on service and based on assumptions that reflect management's best estimates. Past service costs from plan amendments and actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered.

Employee future benefit costs are attributed to labour and charged to operations or capitalized as part of the cost of fixed and intangible assets.

Environmental Costs

Hydro One records a liability for the estimated future expenditures associated with the assessment and remediation of contaminated lands and for the phase-out and destruction of polychlorinated biphenyls (PCB) contaminated mineral oil removed from electrical equipment, based on the present value of these estimated future expenditures. As the Company anticipates that the related expenditures will continue to be recoverable in future rates, a regulatory asset has been recorded to reflect the future recovery of these costs from customers. Hydro One reviews its estimates of future environmental expenditures on an ongoing basis.

Asset Retirement Obligations

When required by force of law or regulation, Hydro One records an asset retirement obligation based on the present value of the estimated fair value expenditures to remove certain assets and mitigate related sites. Where the Company anticipates that the related expenditures will be recoverable in future rates, a corresponding amount is capitalized as a cost of the related fixed assets. Some of the Company's transmission and distribution assets,

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

particularly those located on unowned easements and rights-of-way, may have asset retirement obligations, conditional or otherwise. The majority of the Company's easements and rights-of-way are either of perpetual duration or are automatically renewed annually. Land rights with finite terms are generally subject to extension or renewal. As the Company expects to use the majority of its facilities in perpetuity, no asset retirement obligation currently exists. If, at some future date, a particular facility is shown not to meet the perpetuity criterion, it will be reviewed to determine whether a measurable asset retirement obligation exists. In such a case, an asset retirement obligation would be recorded at that time. The asset retirement obligations recorded to date are primarily related to the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of the Company's facilities and the decommissioning of certain switching stations.

Use of Estimates

The preparation of Consolidated Financial Statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses for the year. Actual results could differ from estimates, including changes as a result of future decisions made by the OEB or the Province.

Emerging Accounting Changes

US GAAP

The Company previously anticipated it would apply IFRS to its Consolidated Financial Statements for fiscal periods beginning on or after January 1, 2012, with comparative restatement of the amounts recorded on the opening IFRS balance sheet as at January 1, 2011. In the absence of a definitive plan for a new project to consider the issuance of a rate-regulated accounting standard by the International Accounting Standards Board, Hydro One began evaluating the option of adopting US GAAP in lieu of IFRS in the first quarter of 2011. On July 7, 2011, the Company filed an application with the OSC for exemptive relief from the requirements of section 3.2 of National Instrument 52-107 *Acceptable Accounting Policies and Auditing Standards* that would otherwise require it to file Consolidated Financial Statements based on IFRS starting with reporting periods commencing after January 1, 2012. The Company's application requested approval to instead adopt US GAAP, without becoming a Securities and Exchange Commission registrant, for its 2012, 2013 and 2014 fiscal years. On July 21, 2011, the OSC approved the Company's application and granted it the requested exemptive relief. Hydro One's Board of Directors has approved a resolution authorizing it to report under US GAAP. As a result, the Company's March 31, 2012 Consolidated Financial Statements will be prepared based on US GAAP with one year of comparative restatement. The Company's opening US GAAP Consolidated Balance Sheet as at January 1, 2010 will be based on a retrospective application of US GAAP. The Company anticipates that its current application of Canadian GAAP for rate-regulated activities will generally be consistent with US GAAP. Any differences between Canadian and US GAAP and their impact on the Company's Consolidated Financial Statements will be assessed as part of the Company's US GAAP conversion project.

3. DEPRECIATION AND AMORTIZATION

Year ended December 31 (Canadian dollars in millions)	**2011**	**2010**
Depreciation of fixed assets in service	485	456
Amortization of intangible assets	45	43
Fixed asset removal costs	66	57
Amortization of regulatory and other assets	20	27
	616	583

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
4. FINANCING CHARGES

Year ended December 31 (Canadian dollars in millions)	2011	2010
Interest on long-term debt payable	412	409
Amortization of debt issuance costs	3	3
Other	5	7
Less: Interest capitalized on construction and development in progress	(58)	(54)
Gain on interest-rate swap agreements	(12)	(17)
Net amortization of premiums	(3)	(3)
Interest earned on investments	(3)	(3)
	344	342

5. PROVISION FOR PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for payments in lieu of corporate income taxes (PILs) differs from the amount that would have been recorded using the combined Canadian Federal and Ontario statutory income tax rate. The reconciliation between the statutory and effective tax rates is provided as follows:

(Canadian dollars in millions)	2011	2010
Income before provision for PILs	791	647
Federal and Ontario statutory income tax rate	28.25%	31.00%
Provision for PILs at statutory rate	223	201
Increase (decrease) resulting from:		
Net temporary differences included in amounts charged to customers:		
Capital cost allowance in excess of depreciation and amortization	(34)	(82)
Pension contributions in excess of pension expense	(17)	(18)
Overheads capitalized for accounting but deducted for tax purposes	(12)	(13)
Interest capitalized for accounting but deducted for tax purposes	(16)	(17)
Employee future benefits other than pension expense in excess of cash payments	5	3
Environmental expenditures	(4)	(5)
Other	3	(15)
Net temporary differences	(75)	(147)
Net permanent differences	2	2
Total income tax provision for PILs	150	56
Current income tax provision for PILs	162	64
Future income tax provision for PILs	(12)	(8)
Total income tax provision for PILs	150	56
Effective income tax rate	18.96%	8.66%

The provision for payments in lieu of current income taxes of $162 million represents the amount payable to the OEFC with respect to current year earnings. The outstanding balance due to the OEFC at December 31, 2011 is $85 million (2010 - $17 million).

The payments in lieu of future income taxes recoverable of $12 million reflects the decrease in the liability for payments in lieu of future income taxes that are not expected to be recovered from the Company's customers through future rates. The increase in the liability for payments in lieu of future income taxes that is expected to be recovered from the Company's customers through future rates has resulted in an increase in regulatory assets.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Future Income Tax Assets and Liabilities

Payments in lieu of future income tax assets and liabilities arise from differences between the carrying amounts and tax bases of the Company's assets and liabilities. The tax effects of these differences are as follows:

December 31 (Canadian dollars in millions)	**2011**	**2010**
Future income tax assets		
Depreciation and amortization in excess of capital cost allowance	6	9
Employee future benefits other than pension expense in excess of cash payments	5	5
Environmental expenditures	5	3
Other	1	5
Total future income tax assets	17	22
Less: current portion	-	3
	17	19

December 31 (Canadian dollars in millions)	**2011**	**2010**
Future income tax liabilities		
Capital cost allowance in excess of depreciation and amortization	(1,106)	(1,004)
Employee future benefits other than pension expense in excess of cash payments	356	337
Environmental expenditures	61	76
Transmission and Distribution amounts received but not recognized for accounting purposes	(46)	(69)
Goodwill	(18)	(17)
Retail settlement variance accounts	10	5
Other	5	11
Total future income tax liabilities	(739)	(661)
Less: current portion	19	32
	(758)	(693)

As at December 31, 2011, payments in lieu of future income tax assets of $608 thousand (2010 - $574 thousand), based on substantively enacted income tax rates and laws, have not been recorded, as it is more likely than not that the assets will not be realized in the future.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. FIXED ASSETS

December 31 (Canadian dollars in millions)	Fixed Assets	Accumulated Depreciation	Construction in Progress	Total
2011				
Transmission	10,906	3,810	1,079	8,175
Distribution	7,596	2,706	253	5,143
Communication	919	468	43	494
Administration and service	1,232	607	61	686
Easements	493	88	-	405
	21,146	7,679	1,436	14,903
2010				
Transmission	10,204	3,626	1,070	7,648
Distribution	7,230	2,556	262	4,936
Communication	892	426	37	503
Administration and service	1,089	554	25	560
Easements	491	85	-	406
	19,906	7,247	1,394	14,053

Financing costs are capitalized on fixed assets under construction, including allowance for funds used during construction on regulated assets and interest on unregulated assets, and were $57 million in 2011 (2010 - $54 million).

7. INTANGIBLE ASSETS

December 31 (Canadian dollars in millions)	Intangible Assets	Accumulated Amortization	Development in Progress	Total
2011				
Computer applications software	427	254	49	222
Other assets	5	3	-	2
	432	257	49	224
2010				
Computer applications software	395	209	9	195
Other assets	5	3	-	2
	400	212	9	197

Financing costs are capitalized on intangible assets under development, including allowance for funds used during development of regulated assets, and were $1 million in 2011 (2010 - $nil).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
8. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities arise as a result of the rate-setting process. Hydro One has recorded the following regulatory assets and liabilities:

December 31 (Canadian dollars in millions)	2011	2010
Regulatory assets:		
Regulatory future income tax asset	763	674
Environmental	257	309
Pension cost variance account	42	27
Rider 2 (Regulatory asset recovery account II)	11	11
Long-term project development cost account	5	7
Rural and remote rate protection variance account	-	7
Rider 4 (Revenue recovery account)	-	5
Other	10	15
Total regulatory assets	1,088	1,055
Less: current portion	24	42
	1,064	1,013

	2011	2010
Regulatory liabilities:		
Deferred pension	466	460
Rider 8	41	9
External revenue variance account	39	29
Retail settlement variance accounts	39	22
Regulatory future income tax liability	25	30
Rider 3 (Regulatory liability refund account)	9	19
PST savings deferral account	8	4
Rural and remote rate protection variance account	8	-
Hydro One Brampton rider	2	6
Rider 6	-	19
Other	23	14
Total regulatory liabilities	660	612
Less: current portion	25	72
	635	540

Regulatory Assets

Regulatory Future Income Tax Asset and Liability

Future income taxes are recognized on temporary differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements and the corresponding tax bases used in the computation of taxable profit. The Company has recognized regulatory assets and liabilities which correspond to future income taxes that flow through the rate-setting process. In the absence of rate-regulated accounting, the Company's provision for PILs would have been recognized using the liability method and there would be no regulatory accounts established for taxes to be recovered through future rates. As a result, the provision for PILs would have been higher by approximately $70 million (2010 - $104 million), including the impact of a change in substantively enacted tax rates.

Environmental

Hydro One records a liability for the estimated future expenditures required to remediate past environmental contamination (see Note 13). Because such expenditures are expected to be recoverable in future rates, the Company has recorded an equivalent amount as a regulatory asset. In 2011, this regulatory asset decreased by $55 million (2010 - decreased by $15 million) to reflect related changes in the Company's PCB liability and increased by $5 million (2010 - decreased by $1 million) for changes in the land assessment and remediation (LAR) liability. The environmental regulatory asset is amortized to results of operations based on the pattern of actual expenditures incurred. The OEB has the discretion to examine and assess the prudence and the timing of recovery of all of Hydro

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

One's actual environmental expenditures. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been lower by $50 million (2010 - $16 million). In addition, amortization expense in 2011 would have been lower by $16 million (2010 - $17 million) and financing charges would have been higher by $14 million (2010 - $15 million).

Pension Cost Variance Account

The pension cost variance account was established for Hydro One Networks' Transmission and Distribution businesses to track the difference between the actual pension costs incurred by the Company and estimated pension costs approved by the OEB. The balance in this account reflects the difference between pension costs paid compared to OEB-approved amounts. On May 28, 2009, the OEB announced its decision regarding the Company's rate application in respect of the Transmission Business of Hydro One Networks for 2009 and 2010 rates. As part of this decision, the OEB approved recovery of the proposed balance in this account plus accrued interest for recovery over 18 months ending December 31, 2010. In the December 23, 2010 decision on 2011 and 2012 transmission rates, the OEB approved the December 31, 2009 balance, including accrued interest, to be recovered over a one-year period from January 1, 2011 to December 31, 2011. In the absence of rate-regulated accounting, revenue would have been lower by $14 million in 2011 (2010 - $20 million).

Rider 2 or Regulatory Asset Recovery Account II

On April 12, 2006, the OEB announced its decision regarding the Company's rate application in respect of the Distribution Business of Hydro One Networks. As part of this decision, the OEB also approved the distribution-related regulatory account balances sought by Hydro One. Rider 2 includes retail settlement and cost variance amounts and distribution low-voltage service amounts, plus accrued interest. In the absence of rate-regulated accounting, amortization expense in 2011 would have remained unchanged (2010 - lower by $8 million). In addition, related financing charges would have remained the same in both years.

Long-term Project Development Cost Account

On May 28, 2009 the OEB approved the creation of a deferral account to record Hydro One's costs of preliminary work to advance certain transmission projects identified in its 2009 and 2010 transmission rate application. On March 25, 2010, the OEB issued a decision amending the scope of the account to include the 20 major transmission projects identified in the September 21, 2009 request from the then Minister of Energy and Infrastructure. In its December 23, 2010 decision, the OEB approved the recovery of the December 31, 2009 balance, including accrued interest, over a one-year period from January 1, 2010 to December 31, 2011. The Company anticipates that it will seek recovery for the remaining balance in its next transmission rate application. In the absence of rate-regulated accounting, operation, maintenance and administration expenses would have been lower by $2 million (2010 - higher by $5 million).

Rural and Remote Rate Protection Variance Account (RRRP)

Hydro One receives rural rate protection amounts from the IESO. A portion of these amounts is provided to retail customers of Hydro One Networks who are eligible for rate protection. In 2002, the OEB approved a mechanism to collect the RRRP through the Wholesale Market Service Charge. Variances between the amounts remitted by the IESO to Hydro One and the fixed entitlements defined in the regulation, and subsequent OEB utility rate decisions, are tracked by the Company in the RRRP variance account to be disposed of at a later date.

Rider 4 or Revenue Recovery Account

On December 18, 2008, the OEB announced its decision regarding the Company's rate application in respect of the Distribution Business of Hydro One Networks. The approved rates were effective May 1, 2008 with an implementation date of February 1, 2009. The OEB approved the establishment of Rider 4 to record the revenue differential between existing distribution rates and the new rates. The OEB ordered that the approved revenue requirement be retroactively recovered, through a rate rider, over a period of 27 months commencing February 1, 2009 and ending April 30, 2011.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Regulatory Liabilities

Deferred Pension

In accordance with the OEB's 1999 transitional rate order, pension costs are recorded in results of operations when employer contributions are paid into the pension plan. The Company's deferred pension asset represents the cumulative difference between employer contributions and pension costs and the deferred pension regulatory liability results from the Company's recognition, as the result of OEB direction, of revenues and expenses in different periods than would be the case for an unregulated enterprise. In the absence of rate-regulated accounting, operating, maintenance and administration expense would have been lower by $3 million (2010 - $22 million).

Rider 8

As part of the April 9, 2010 decision, the OEB also requested the establishment of deferral accounts which capture the difference between the revenue recorded on the basis of Green Energy Plan expenditures incurred and actual recoveries received.

External Revenue Variance Account

In its May 28, 2009 decision, the OEB approved forecasted amounts related to export service revenue, external revenue from secondary land use and external revenue from station maintenance and engineering and construction work. These revenue sources are an offset to the Company's revenue requirement, and as such, the OEB requested the establishment of new variance accounts to capture any difference between the approved forecast and actual revenues from these sources of external revenue. The balance reflects the excess of external revenue compared to the OEB-approved forecast. The OEB's December 23, 2010 decision approved the disposition of the December 31, 2009 balance, including accrued interest, over a one-year period from January 1, 2011 to December 31, 2011.

Retail Settlement Variance Accounts (RSVA)

Hydro One has deferred certain retail settlement variance amounts under the provisions of Article 490 of the OEB's *Accounting Procedures Handbook*. The OEB's December 18, 2008 decision allowed for the disposition of RSVA accumulated since May 1, 2006 through to April 30, 2008, inclusive of interest, within the Regulatory Liability Refund Account (RLRA). Hydro One Networks accumulated a net liability in its RSVA from May 1, 2008 to December 31, 2009. On April 9, 2010, the OEB announced its decision regarding Hydro One Networks' distribution rate application which included the allowance to dispose of RSVA accumulated during that period, inclusive of interest, within Rider 6. Hydro One Networks has accumulated a net liability in its RSVA account since December 31, 2009.

Rider 3 or RLRA

The OEB's December 18, 2008 decision approved certain distribution-related deferral account balances sought by Hydro One in its application including RSVA amounts, deferred tax changes, OEB costs and smart meters. Amounts approved for recovery represented balances incurred prior to April 30, 2008, plus associated interest. The OEB ordered that the approved balances be aggregated into a single regulatory account to be recovered over a 27-month period from February 1, 2009 to April 30, 2011.

PST savings deferral account

The amounts recognized in this regulatory account reflect the impact on the Company from the implementation of an HST sales tax regime on July 1, 2010. The variance recognized is the amount approved in the revenue requirement relating to the previous Provincial Sales Tax (PST) regime. The PST savings are refundable to ratepayers in future years.

Hydro One Brampton Rider

On April 13, 2010, the OEB issued a decision regarding the 2010 distribution rates of Hydro One Brampton. Included in the OEB's decision was the approval of certain deferral account balances, primarily RSVA, sought by Hydro One Brampton in its application. The OEB ordered that the approved balances be aggregated into a single regulatory account to be disposed of through a rate rider over a two-year period from May 1, 2010 to April 30, 2012.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rider 6

As part of the April 9, 2010 decision, the OEB approved certain distribution-related deferral account balances sought by Hydro One in its application including retail settlement variance accounts, regulatory asset recovery account I, retail cost variance accounts and smart meters. The OEB ordered that the approved balances be aggregated into a single regulatory account to be recovered over an 18-month period from May 1, 2010 to December 31, 2011.

9. DEBT

December 31 (Canadian dollars in millions)	2011	2010
Long-term debt:		
4.08% notes due 2011[1]	-	250
6.40% notes due 2011	-	250
5.77% notes due 2012	600	600
5.00% notes due 2013	600	600
3.13% notes due 2014[1]	750	750
2.95% notes due 2015[1]	500	250
Floating-rate notes due 2015	50	-
4.64% notes due 2016	450	450
5.18% notes due 2017	600	600
4.40% notes due 2020	300	300
7.35% debentures due 2030	400	400
6.93% notes due 2032	500	500
6.35% notes due 2034	385	385
5.36% notes due 2036	600	600
4.89% notes due 2037	400	400
6.03% notes due 2039	300	300
5.49% notes due 2040	500	500
4.39% notes due 2041	300	-
6.59% notes due 2043	315	315
5.00% notes due 2046	325	325
4.00% notes due 2051	100	-
	7,975	7,775
Add: Unrealized marked-to-market loss[1]	33	8
Less: Long-term debt payable within one year	(600)	(500)
Net unamortized premiums	23	27
Unamortized debt issuance costs	(32)	(32)
Long-term debt	7,399	7,278

[1] The unrealized marked-to-market loss relates to the MTN Series 14 Note which matured on March 3, 2011; $500 million of the MTN Series 19 Note which will mature on November 14, 2014 and $250 million of the MTN Series 21 Note issued in January 2011 which will mature on September 11, 2015 which are all accounted for as fair value hedges. The unrealized marked-to-market loss is offset by a $33 million (2010 - $8 million) unrealized marked-to-market gain on the related fixed-to-floating interest-rate swap agreements.

Short-term debt represents promissory notes pursuant to the Company's Commercial Paper Program. The notes are denominated in Canadian dollars with varying maturities not exceeding 365 days. There was no short-term debt outstanding as of December 31, 2011 and December 31, 2010.

Hydro One has a $1,250 million committed and unused revolving standby credit facility with a syndicate of banks maturing in June 2014. If used, interest on the facility would apply based on Canadian benchmark rates. This credit facility supports the Company's Commercial Paper Program. In addition, the Company holds $250 million of Province of Ontario Floating Rate Notes as an alternative source of liquidity.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company issues notes for long-term financing under the Medium-Term Note (MTN) Program. The maximum authorized principal amount of medium-term notes issuable under this program is $3,000 million, of which $2,600 million was remaining and available as at December 31, 2011.

On August 2, 2011, the Company entered into two forward-rate agreements to lock in two interest-rate resets on the floating rate it pays on $50 million and $115 million of floating-rate debt with settlement dates of October 24 and November 21, 2011, respectively. The cash settlements on the forward rate agreements that settled on October 24 and November 21 were insignificant.

On November 16, 2011, the Company entered into two floating-to-fixed interest-rate swaps for $250 million each to lock in the floating rate it pays on (i) a $250 million fixed-to-floating interest-rate swap from December 12, 2011 to December 11, 2012 and (ii) a $250 million fixed-to-floating interest-rate swap from February 21, 2012 to February 19, 2013. On the same date it also entered into a floating-to-fixed interest-rate swap for $50 million to lock in the floating rate it pays on $50 million floating-rate notes from January 24, 2012 to January 24, 2013. The Company designated these swaps as fair value hedges of interest-rate risk. As such, changes in fair value are recognized in the Consolidated Statement of Operations for the period.

On December 22, 2011, the Company issued $100 million 4.00% notes under its MTN program with a maturity date of December 22, 2051.

The long-term debt is unsecured and denominated in Canadian dollars. Such debt is summarized by the number of years to maturity in Note 10.

10. CARRYING AND FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying value of financial instruments as at December 31, 2011 is as follows:

(Canadian dollars in millions)	Derivatives Used for Hedging	Other Financial Instruments Used for Hedging	Held-for-Trading	Loans and Receivables	Other Financial Liabilities
Financial Assets					
Accounts receivable	-	-	-	961	-
Short-term investments	-	-	228	-	-
Long-term investment	-	-	250	-	-
Other assets	33	-	-	2	-
Financial Liabilities					
Bank indebtedness	-	-	-	-	39
Accounts payable and accrued charges[1]	-	-	-	-	976
Long-term debt	-	783	-	-	7,216

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[1] Accounts payable and accrued charges do not include income taxes payable or dividends payable.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The carrying amounts of all financial instruments, except long-term debt, approximate fair value. The fair value of derivative financial instruments reflects the estimated amount that the Company, if required to settle an outstanding contract, would have been required to pay or would be entitled to receive at year end. The fair value of long-term debt, provided in the table below, is based on unadjusted year-end market prices for the same or similar debt of the same remaining maturities. The fair value measurement of long-term debt is categorized as level 1 as the inputs used reflect quoted prices in an active market.

December 31 (Canadian dollars in millions)	**2011**		**2010**	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt[1]	7,975	9,389	7,775	8,555

[1] The carrying value of long-term debt represents the par value of the notes and debentures. The fair value of long-term debt represents the market value of the notes and debentures, other than the MTN Series 14 Note, $500 million of the MTN Series 19 Note and $250 million of the MTN Series 21 Note, which are designated as part of hedging relationships and are therefore marked-to-market using the yield in the swap market for the related swaps.

Exposure to market risk, credit risk and liquidity risk arises in the normal course of the Company's business.

Market Risk

Market risk refers primarily to the risk of loss that results from changes in commodity prices, foreign exchange rates and interest rates. The Company does not have commodity risk. The Company does have foreign exchange risk as it enters into agreements to purchase materials and equipment associated with the Company's capital programs and projects that are settled in foreign currencies. This foreign exchange risk is not material, although the Company could in the future decide to issue foreign currency-denominated debt which would be hedged back to Canadian dollars consistent with Hydro One's risk management policy. Hydro One is exposed to fluctuations in interest rates as the regulated rate of return for the Company's transmission and distribution businesses is derived using a formulaic approach which is based on the forecast for long-term Government of Canada bond yields and the spread in 30-year "A"-rated Canadian utility bonds over the 30-year benchmark Government of Canada bond yield. The Company estimates that a 1% decrease in the forecasted long-term Government of Canada bond yield or the "A"-rated Canadian utility spread used in determining the Company's rate of return would reduce its Transmission Business' results of operations by approximately $18 million and its Hydro One Networks' Distribution Business' results of operations by approximately $10 million.

Credit Risk

Financial assets create credit risk that a counter-party will fail to discharge an obligation, causing a financial loss. As at December 31, 2011, there were no significant concentrations of credit risk with respect to any class of financial assets. The Company's revenue is earned from a broad base of customers. As a result, Hydro One did not earn a significant amount of revenue from any individual customer. As at December 31, 2011, there were no significant balances of accounts receivable due from any single customer.

In the year, the Company's provision for bad debts decreased to $18 million (2010 - $25 million). Adjustments and write-offs were determined on the basis of a review of overdue accounts, taking into consideration historical experience. As at December 31, 2011, approximately 3% of the Company's accounts receivable were aged more than 60 days.

Hydro One manages its counter-party credit risk through various techniques including entering into transactions with highly-rated counter-parties; limiting total exposure levels with individual counter-parties consistent with the Company's Board-approved Credit Risk Policy; entering into master agreements which enable net settlement and the contractual right of offset; and monitoring the financial condition of counter-parties. The Company's credit risk for accounts receivable is limited to the carrying amount on the Consolidated Balance Sheet.

The Company uses derivative financial instruments to manage interest-rate risk. Hydro One may enter into derivative agreements such as forward-starting pay fixed-interest-rate swap agreements to hedge against the effect of future interest rate movements on long-term fixed rate borrowing requirements. No such agreements were outstanding as at December 31, 2011.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Derivative financial instruments result in credit risk exposure of the counter-party involved for there is a risk of default by the counter-party of its obligation under these derivative instruments. As at December 31, 2011, the derivative instruments executed by Hydro One include: (a) two $250 million fixed-to-floating interest-rate swap agreements to convert $500 million of the 3.13% coupon note maturing November 19, 2014 into a three-month variable rate debt; (b) two $125 million fixed-to-floating interest-rate swap agreements to convert $250 million of the 2.95% coupon note maturing September 11, 2015 into a three-month variable rate debt; (c) two $250 million floating-to-fixed interest-rate swap agreements that lock in the floating rate the Company will pay for the next 12 months on the above fixed-to-floating interest-rate swaps; and (d) a $50 million floating-to-fixed interest-rate swap agreement that locks in the floating rate the Company will pay for the next 12 months on $50 million floating-rate debt. The counter-party credit risk exposure on the fair value of these interest-rate swap contracts is $36 million as at December 31, 2011 (2010 - $11 million).

Liquidity Risk

Liquidity risk refers to the Company's ability to meet its financial obligations as they come due. Short-term liquidity is provided through cash and cash equivalents on hand, funds from operations, the Company's Commercial Paper Program, under which it is authorized to issue up to $1,000 million in short-term notes with a term to maturity of less than 365 days, the Company's revolving credit facility and through the Company's holdings of Province of Ontario Floating Rate Notes. The Commercial Paper Program is supported by a total of $1,500 million in liquidity facilities comprised of a $1,250 million committed revolving credit facility with a syndicate of banks maturing June 1, 2014 and the holding of $250 million of Province of Ontario Floating Rate Notes. The short-term liquidity under this program and anticipated levels of funds from operations should be sufficient to fund Hydro One's normal operating requirements.

As at December 31, 2011, accounts payable and accrued charges in the amount of $976 million are expected to be settled in cash at their carrying amounts within the next year. Long-term debt maturing over the next 12 months is $600 million. Interest payments over the next 12 months on the Company's outstanding long-term debt amount to $408 million.

As at December 31, 2011, Hydro One has issued long-term debt in the amount of $7,975 million and the Company is required to make interest payments in the amount of $6,779 million. Principal outstanding, interest payments and related weighted average interest rates are summarized by the number of years to maturity in the following table.

Years to Maturity	Principal Outstanding on Notes and Debentures *(Canadian dollars in millions)*	Interest Payments *(Canadian dollars in millions)*	Weighted Average Interest Rate *(Percent)*
1 year	600	408	5.8
2 years	600	373	5.0
3 years	750	343	3.1
4 years	550	320	2.8
5 years	450	295	4.6
	2,950	1,739	4.2
6 – 10 years	900	1,277	4.9
Over 10 years	4,125	3,763	5.8
	7,975	6,779	5.1

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. CAPITAL MANAGEMENT

The Company's objectives with respect to its capital structure are to maintain effective access to capital on a long-term basis at reasonable rates, and to deliver appropriate financial returns. In order to ensure ongoing effective access to capital, the Company targets an "A" category long-term credit rating.

The Company considers its capital structure to consist of shareholder's equity, short-term notes payable, long-term debt and cash and cash equivalents. The Company's capital structure as at December 31, 2011 and December 31, 2010 was as follows:

(Canadian dollars in millions)	**2011**	**2010**
Long-term debt payable within one year	600	500
Less: cash and cash equivalents	189	172
	411	328
Long-term debt	7,399	7,278
Preferred Shares	323	323
Common Shares	3,314	3,314
Retained Earnings	2,827	2,354
	6,464	5,991
Total Capital	14,274	13,597

For the purposes of this table and the Consolidated Statements of Cash Flows, "cash and cash equivalents" refers to the Consolidated Balance Sheet items "cash," "bank indebtedness" and "short-term investments."

The Company has customary covenants typically associated with long-term debt. Among other things, Hydro One's long-term debt and credit facility covenants limit the permissible debt to 75% of the Company's total capitalization, limit the ability to sell assets and impose a negative pledge provision, subject to customary exceptions. At December 31, 2011, Hydro One is in compliance with all of these covenants and limitations.

12. EMPLOYEE FUTURE BENEFITS

Hydro One has a contributory defined benefit pension plan covering all regular employees of Hydro One and its subsidiaries, except Hydro One Brampton. Employees of Hydro One Brampton participate in the Ontario Municipal Employees Retirement System, a multi-employer public sector pension fund. Current contributions by Hydro One Brampton are approximately $1 million annually.

Plan Asset Mix

Hydro One's pension plan asset mix at December 31, 2011 and 2010 was as follows:

	% of Plan Assets	
December 31	**2011**	**2010**
Equity securities	59.4	63.5
Debt securities	37.1	30.7
Other[1]	3.5	5.8
	100.0	100.0

[1] Composed of cash and cash investments.

Supplementary Information

The Hydro One pension plan holds $27 million of Hydro One Inc. corporate bonds (2010 - $14 million) and holds debt securities of the Province of $214 million at December 31, 2011 (2010 - $70 million).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company's pension plan provides benefits based on highest three-year average pensionable earnings. For new management employees who commenced employment on or after January 1, 2004, and for new Society of Energy Professionals hired after November 17, 2005, benefits are based on highest five-year average pensionable earnings. After retirement, pensions are indexed to inflation. The measurement date used to determine plan assets and the accrued benefit obligation is December 31. Based on the actuarial valuation filed with the Financial Services Commission of Ontario (FSCO) in September 2010, effective for December 31, 2009, the Company contributed $152 million to its pension plan in respect of 2011 (2010 - $193 million), $148 million of which is required to satisfy minimum funding requirements (2010 - $145 million). The Company made an additional payment of $48 million in December 2010 and an additional payment related to a partial plan wind-up in 2011 of $4 million. Contributions are payable one month in arrears. All of the contributions are expected to be in the form of cash. Contributions after 2012 will be based on an actuarial valuation effective December 31, 2012 and will depend on future investment returns, and changes in benefits or actuarial assumptions.

Total cash payments for employee future benefits made in 2011, consisting of cash contributed by the Company to its funded pension plan and cash payments directly to beneficiaries for its unfunded other benefit plans, was $195 million (2010 - $233 million).

	Pension		Employee Future Benefits other than Pension	
Year ended December 31 (Canadian dollars in millions)	**2011**	**2010**	**2011**	**2010**
Change in accrued benefit obligation				
Accrued benefit obligation, January 1	4,996	4,566	1,178	1,004
Current service cost	108	94	30	24
Interest cost	286	294	68	65
Reciprocal transfers	4	4	-	-
Benefits paid	(289)	(262)	(42)	(42)
Net actuarial loss (gain)	356	300	(28)	127
Accrued benefit obligation, December 31	5,461	4,996	1,206	1,178
Change in plan assets				
Fair value of plan assets, January 1	4,699	4,336	-	-
Actual return on plan assets	102	421	-	-
Reciprocal transfers	4	4	-	-
Benefits paid	(289)	(262)	-	-
Employer's contributions[1]	153	191	-	-
Employees' contributions	27	24	-	-
Administrative expenses	(14)	(15)	-	-
Fair value of plan assets, December 31	4,682	4,699	-	-
Funded status				
Unfunded benefit obligation	(779)	(297)	(1,206)	(1,178)
Unamortized net actuarial losses	1,238	746	115	144
Unamortized past service costs	7	11	8	11
Deferred pension asset (accrued benefit liability)	466	460	(1,083)	(1,023)
Less: current portion	-	-	43	43
Deferred pension asset (long-term liability)	466	460	(1,040)	(980)

[1] In January 2012, the Company made a contribution of $12 million in respect of 2011 (2011 - $13 million in respect of 2010).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Pension		Employee Future Benefits Other Than Pension	
Year ended December 31 (Canadian dollars in millions)	**2011**	**2010**	**2011**	**2010**
Components of net periodic benefit cost				
Current service cost, net of employee contributions	81	70	30	24
Interest cost	286	294	68	65
Actual return on plan assets net of expenses	(88)	(406)	-	-
Actuarial loss (gain)	356	300	(28)	127
Other	-	(1)	-	-
Costs arising in the period	635	257	70	216
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	(202)	129	-	-
Actuarial (gain) loss	(289)	(236)	30	(134)
Plan amendments	4	4	3	4
Net periodic benefit cost	148	154	103	86
Charged to results of operations[2]	93	134	61	51
Effect of a 1% increase in health care cost trends on:				
Accrued benefit obligation, December 31	-	-	174	185
Service cost and interest cost	-	-	20	15
Effect of a 1% decrease in health care cost trends on:				
Accrued benefit obligation, December 31	-	-	(138)	(146)
Service cost and interest cost	-	-	(14)	(12)
Significant assumptions				
For net periodic benefit cost:				
Expected rate of return on plan assets	6.25%	6.50%	-	-
Weighted average discount rate	5.75%	6.50%	5.75%	6.50%
Rate of compensation scale escalation (without merit)	2.50%	2.50%	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%	2.00%	2.00%
Average remaining service life of employees *(years)*	11	10	11	11
Rate of increase in health care cost trend[3]	-	-	4.86%	4.81%
For accrued benefit obligation, December 31:				
Weighted average discount rate	5.25%	5.75%	5.25%	5.75%
Rate of compensation scale escalation (without merit)	2.50%	2.50%	2.50%	2.50%
Rate of cost of living increase	2.00%	2.00%	2.00%	2.00%
Rate of increase in health care cost trend[4]	-	-	4.51%	4.86%

[2] The Company follows the cash basis of accounting. During 2011, pension costs of $153 million (2010 - $191 million) were attributed to labour, of which $93 million (2010 - $134 million) was charged to operations and $60 million (2010 - $57 million) was capitalized as part of the cost of fixed assets.

[3] 8.31% in 2011 grading down to 4.86% per annum in and after 2029 (2010 - 8.57% in 2010 grading down to 4.81% per annum in and after 2029).

[4] 8.11% in 2012 grading down to 4.51% per annum in and after 2031 (2010 - 8.31% in 2011 grading down to 4.86% per annum in and after 2029).

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
13. ENVIRONMENTAL LIABILITIES

December 31 (Canadian dollars in millions)	PCB	LAR	Total
2011			
Opening balance, January 1	251	58	309
Interest accretion	12	2	14
Expenditures	(9)	(7)	(16)
Revaluation adjustment	(55)	5	(50)
Ending balance, December 31	199	58	257
Less: current portion	(13)	(9)	(22)
	186	49	235
2010			
Opening balance, January 1	262	65	327
Interest accretion	13	2	15
Expenditures	(9)	(8)	(17)
Revaluation adjustment	(15)	(1)	(16)
Ending balance, December 31	251	58	309
Less: current portion	(15)	(7)	(22)
	236	51	287

Estimated future environmental expenditures for each of the five years subsequent to December 31, 2011 and in total thereafter are as follows: 2012 - $22 million; 2013 - $24 million; 2014 - $36 million; 2015 - $25 million; 2016 - $23 million; and thereafter - $173 million. Of the total estimated future expenditures, $242 million relate to PCBs (2010 - $308 million) and $61 million to LAR (2010 - $61 million).

Consistent with its accounting policy for environmental costs, Hydro One records a liability for the estimated future expenditures associated with the removal and destruction of PCB-contaminated insulating oils and related electrical equipment and for the assessment and remediation of chemically-contaminated lands.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, for the PCB program, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures. Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future environmental expenditures have been discounted using factors ranging from 3.57% to 6.25%, depending on the appropriate rate for the period when increases in the obligations were first recorded.

PCBs

On September 17, 2008, Environment Canada published its final regulations governing the management, storage and disposal of PCBs. These regulations were enacted under the *Canadian Environmental Protection Act, 1999.* The regulations impose timelines for disposal of PCBs based on criteria including type of equipment, in-use status and PCB-contamination thresholds. All PCBs in concentrations of 500 parts per million (ppm) or more, except for

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

specified equipment, had to be disposed of by the end of 2009. However, in 2009, Hydro One sought and received an extension until 2014 for the removal of PCBs from certain station equipment that could potentially be contaminated in excess of this threshold. Under the regulations, PCBs in equipment in concentrations greater than 50 ppm and less than 500 ppm, or greater than 50 ppm for pole-top transformers, pole-top auxiliary electrical equipment and light ballasts must be disposed of by the end of 2025.

Management judges that the Company currently has very few PCB-contaminated assets in excess of 500 ppm. Priority will be given to targeting inspection and testing work toward identifying and removing PCBs in assets that must be compliant by 2014. Assets to be disposed of by 2025 primarily consist of pole-mounted distribution line transformers and light ballasts. Contaminated distribution and transmission station equipment will generally be replaced or will be decontaminated by removing PCB-contaminated insulating oil and retrofilling with replacement oil that is less than 2 ppm.

Management's best estimate of the total estimated future expenditures to comply with PCB regulations is about $242 million (2010 - $308 million). These expenditures are expected to be incurred over the period from 2012 to 2025. As a result of its most recent cost estimate to comply with existing PCB regulations, the Company reduced its December 31, 2010 PCB liability by approximately $55 million (2010 - $15 million) compared to the September 30 balance for the respective year.

LAR

As part of its annual review of environmental liabilities, the Company also reviewed its liability for LAR. As a result of this review, the Company increased its December 31, 2011 liability by approximately $5 million (2010 - decreased by $1 million) compared to the September 30 balance for the respective year. The Company's best estimate of the total future expenditures to complete its LAR program is about $61 million.

14. ASSET RETIREMENT OBLIGATIONS

Consistent with its accounting policy for asset retirement obligations, Hydro One records a liability for the present value of the estimated future expenditures associated with the retirement of tangible long-lived assets that the Company is legally required to remove. A corresponding amount is recorded as an asset retirement cost that is capitalized as part of the carrying amount of the related fixed asset.

There are uncertainties in estimating future expenditures due to potential external events such as changing legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's asset retirement obligations represent management's best estimates of the costs required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. Asset retirement obligations are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

In determining the amounts to be recorded as asset retirement obligations, the Company estimates the current fair value for completing required removal and remediation work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2% has been used to express these current cost estimates as estimated future expenditures. Future expenditures have been discounted using factors ranging from approximately 3% to 5%, depending on the appropriate rate for the period when expenditures are expected to be incurred.

Hydro One has recorded a liability for the estimated future expenditures associated with the removal and disposal of asbestos-containing materials installed in some of its facilities. The Company's liability is based on management's best estimate of the present value of the estimated future expenditures to comply with existing regulations. In 2010, the Company completed a study with the aid of an expert external consultant to estimate the future expenditures required to remove asbestos prior to facility demolition. The current present value of the estimated future expenditures is $7 million. The amount of interest recorded is nominal and there have been no expenditures associated with this obligation.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In 2011, Hydro One recorded a $4 million asset retirement obligation related to the future decommissioning and removal of one of its switching stations. Including the obligation recorded in respect of another switching station in 2010, the present value of the estimated future expenditures to discharge these obligations is about $8 million. Interest recorded on this amount in the year was nominal and there have been no expenditures associated with these obligations to date.

15. SHARE CAPITAL

Common and Preferred Shares

On March 31, 2000, the Company issued to the Province 12,920,000 5.5% cumulative preferred shares with a redemption value of $25 per share, and 99,990 common shares, bringing the total number of outstanding common shares to 100,000. The Company is authorized to issue an unlimited number of preferred and common shares.

The preferred shares are entitled to an annual cumulative dividend of $18 million, which is payable on a quarterly basis. The preferred shares are redeemable at the option of the Province at a price of $25 per share, representing the stated value, plus any accrued and unpaid dividends if the Province sells a number of the common shares which it owns to the public such that the Province's holdings are reduced to less than 50% of the common shares of the Company. Hydro One may elect, without condition, to pay all or part of this redemption price by issuing additional common shares to the Province. If the Province does not exercise its redemption right, the Company would have the ability to adjust the dividend on the preferred shares to produce a yield that is 0.50% less than the then-current dividend market yield for similarly rated preferred shares. The preferred shares do not carry voting rights, except in limited circumstances, and would rank in priority over the common shares upon liquidation.

Dividends

Common dividends are declared at the sole discretion of the Hydro One Board of Directors, and are recommended by management based on results of operations, maintenance of the deemed regulatory capital structure, financial condition, cash requirements and other relevant factors such as industry practice and shareholder expectations.

In 2011, preferred dividends in the amount of $18 million (2010 - $18 million) and common dividends in the amount of $150 million (2010 - $10 million) were declared.

Earnings per Share

Earnings per share is calculated as net income during the year, after cumulative preferred dividends, divided by the weighted average number of common shares outstanding during the year.

16. RELATED PARTY TRANSACTIONS

The Province, OEFC, IESO, Ontario Power Authority (OPA) and Ontario Power Generation Inc. (OPG) are related parties of Hydro One. In addition the OEB is related to the Company by virtue of its status as a Provincial Crown Corporation. Transactions between these parties and Hydro One were as follows:

Hydro One received revenue for transmission services from the IESO, based on uniform transmission rates approved by the OEB. Transmission revenue for 2011 includes $1,366 million (2010 - $1,277 million) related to these services. Hydro One receives amounts for rural rate protection from the IESO. Distribution revenue for 2011 includes $127 million (2010 - $127 million) related to this program. Hydro One also received revenue from the IESO related to the supply of electricity to remote northern communities. Distribution revenue for 2011 includes $28 million (2010 - $28 million) related to these services.

In 2011, Hydro One purchased power in the amount of $2,401 million (2010 - $2,361 million) from the IESO-administered electricity market, $16 million (2010 - $19 million) from OPG and $10 million (2010 - $13 million) from the OEFC.

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Under the *Ontario Energy Board Act, 1998*, the OEB is required to recover all of its annual operating costs from gas and electricity distributors and electricity transmitters. In 2011, Hydro One incurred $11 million (2010 - $11 million) in OEB fees.

Hydro One has service level agreements with the other successor corporations of Ontario Hydro. These services include field, engineering, logistics and telecommunications services. Revenues related to the provision of construction and equipment maintenance services to the other successor corporations were $11 million (2010 - $14 million), primarily for the Transmission Business. Operation, maintenance and administration costs related to the purchase of services from the other successor corporations were less than $2 million in each of 2011 and 2010.

The OPA funds substantially all of the Company's Conservation Demand Management (CDM) programs. The funding includes program costs, incentives, management fees and bonuses. In 2011, Hydro One received $39 million from the OPA in respect of the CDM programs (2010 - $36 million).

The provision for PILs, property taxes and capital taxes were paid or payable to the OEFC and dividends were paid or payable to the Province.

The amounts due to and from related parties as a result of the transactions referred to above are as follows:

December 31 (Canadian dollars in millions)	**2011**	**2010**
Accounts receivable	143	111
Accounts payable and accrued charges	(344)	(283)

Included in accounts payable and accrued charges are amounts owing to the IESO in respect of power purchases of $209 million (2010 - $222 million).

17. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the purposes of the Consolidated Statements of Cash Flows, "cash and cash equivalents" refers to the Consolidated Balance Sheet items "cash", "short-term investments" and "bank indebtedness." The changes in non-cash balances related to operations consist of the following:

Year ended December 31 (Canadian dollars in millions)	**2011**	**2010**
Accounts receivable increase	(38)	(51)
Materials and supplies increase	(4)	-
Accounts payable and accrued charges increase	188	87
Accrued interest increase	1	10
Long-term accounts payable and other liabilities decrease	-	(3)
Employee future benefits other than pension increase	60	40
Other	(11)	11
	196	94

Supplementary information:		
Interest paid	413	409
Payments in lieu of corporate income taxes	80	48

HYDRO ONE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. CONTINGENCIES

Legal Proceedings

Hydro One is involved in various lawsuits, claims and regulatory proceedings in the normal course of business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Transfer of Assets

The transfer orders by which Hydro One acquired certain of Ontario Hydro's businesses as of April 1, 1999 did not transfer title to some assets located on lands held for bands or bodies of Indians under the *Indian Act* (Canada). Currently, the OEFC holds these assets. Under the terms of the transfer orders, Hydro One is required to manage these assets until it has obtained all consents necessary to complete the transfer of title of these assets to itself. The Company cannot predict the aggregate amount that it may have to pay, either on an annual or one-time basis, to obtain the required consents. However, it anticipates having to pay more than the $1,142,743 that it paid to these Indian bands and bodies in 2011. If Hydro One cannot obtain consents from the Indian bands and bodies, the OEFC will continue to hold these assets for an indefinite period of time. If the Company cannot reach a satisfactory settlement, it may have to relocate these assets from the Indian lands to other locations at a cost that could be substantial or, in a limited number of cases, to abandon a line and replace it with diesel-generation facilities. The costs relating to these assets could have a material adverse effect on the Company's net income if it is not able to recover them in future rate orders.

19. COMMITMENTS

Agreement with Inergi LP (Inergi)

Effective March 1, 2002, Inergi (a wholly-owned subsidiary of Cap Gemini Canada Inc.) began providing services to Hydro One. On May 1, 2010, consistent with the terms of the contract, the Company extended the Master Services Agreement with Inergi for a further three-year period, to expire on February 28, 2015. As a result of this agreement, Hydro One receives from Inergi a range of services including business processing and information technology outsourcing services, as well as core system support related primarily to SAP implementation and optimization. Inergi billings for these services have ranged between $93 million and $130 million per year and are subject to external benchmarking every three years to ensure Hydro One is receiving a defined, competitive and continuously improved price. In connection with this agreement, on March 1, 2002 the Company transferred approximately 900 employees to Inergi, including about 130 non-regular employees.

The annual commitments under the agreement in each of the five years subsequent to December 31, 2011, and in total thereafter are as follows: 2012 - $138 million; 2013 - $133 million; 2014 - $128 million; 2015 - $21 million; 2016 and thereafter - $nil.

Prudential Support

Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. As at December 31, 2011, the Company provided prudential support to the IESO on behalf of Hydro One Networks and Hydro One Brampton using only parental guarantees of $325 million. Prudential support at December 31, 2011 was also provided on behalf of two distributors using guarantees of $660 thousand. The IESO could draw on these guarantees if these subsidiaries or distributors fail to make a payment required by a default notice issued by the IESO. The maximum potential payment is the face value of any bank letters of credit plus the nominal amount of the corporate guarantee. If Hydro One's highest long-term credit rating deteriorated to below the "Aa" category, the Company would be required to resume providing letters of credit as prudential support.

HYDRO ONE INC.
FIVE-YEAR SUMMARY OF FINANCIAL AND OPERATING STATISTICS

Retirement Compensation Arrangements

Bank letters of credit have been issued to provide security for the Company's liability under the terms of a trust fund established pursuant to the supplementary pension plan for the employees of Hydro One and its subsidiaries. The trustee is required to draw upon the letters of credit if Hydro One is in default of its obligations under the terms of this plan. Such obligations include the requirement to provide the trustee with an annual actuarial report as well as letters of credit sufficient to secure the Company's liability under the plan, to pay benefits payable under the plan and to pay the letter of credit fee. The maximum potential payment is the face value of the bank letters of credit. As at December 31, 2011, Hydro One had bank letters of credit of $124 million (2010 - $113 million) outstanding relating to retirement compensation arrangements.

Operating Leases

The future minimum lease payments under operating leases for each of the five years subsequent to December 31, 2011, and in total thereafter are as follows: 2012 - $8 million; 2013 - $8 million; 2014 - $8 million; 2015 - $3 million; 2016 - $7 million; and thereafter - $20 million.

20. SEGMENT REPORTING

Hydro One has three reportable segments:

- The Transmission Business, which comprises the core business of providing transportation and connection services, is responsible for transmitting electricity throughout the Ontario electricity grid;
- The Distribution Business, which comprises the core business of delivering and selling electricity to customers; and
- The "other" segment, the operations of which primarily consist of those of the telecommunications business.

The designation of segments is based on a combination of regulatory status and the nature of the products and services provided. The accounting policies followed by the segments are the same as those described in the summary of significant accounting policies (see Note 2). Segment information on the above basis is as follows:

Year ended December 31 (Canadian dollars in millions)	**Transmission**	**Distribution**	**Other**	**Consolidated**
2011				
Segment profit				
Revenues	1,389	4,019	63	5,471
Purchased power	-	2,628	-	2,628
Operation, maintenance and administration	422	609	61	1,092
Depreciation and amortization	302	304	10	616
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	665	478	(8)	1,135
Financing charges				344
Income before provision for payments in lieu of corporate income taxes				791
Capital expenditures	810	628	9	1,447

HYDRO ONE INC.
FIVE-YEAR SUMMARY OF FINANCIAL AND OPERATING STATISTICS

Year ended December 31 (Canadian dollars in millions)	**Transmission**	**Distribution**	**Other**	**Consolidated**
2010				
Segment profit				
Revenues	1,307	3,754	63	5,124
Purchased power	-	2,474	-	2,474
Operation, maintenance and administration	416	602	60	1,078
Depreciation and amortization	273	300	10	583
Income (loss) before financing charges and provision for payments in lieu of corporate income taxes	618	378	(7)	989
Financing charges				342
Income before provision for payments in lieu of corporate income taxes				647
Capital expenditures	936	629	5	1,570

December 31 (Canadian dollars in millions)	**2011**	**2010**
Total assets		
Transmission	10,380	9,805
Distribution	7,336	6,908
Other	652	609
	18,368	17,322

All revenues, costs and assets, as the case may be, are earned, incurred or held in Canada.

21. SUBSEQUENT EVENTS

On January 13, 2012, Hydro One issued $300 million in 3.20% notes under its MTN Program with a maturity date of January 13, 2022.

On February 10, 2012, Hydro One declared common dividends to its shareholder in the amount of $277 million and preferred shares of $4 million.

22. COMPARATIVE FIGURES

The comparative Consolidated Financial Statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2011 Consolidated Financial Statements.

HYDRO ONE INC.
FIVE-YEAR SUMMARY OF FINANCIAL AND OPERATING STATISTICS

Year ended December 31 (Canadian dollars in millions)	2011	2010	2009	2008	2007
Statement of operations data					
Revenues					
Transmission	1,389	1,307	1,147	1,212	1,242
Distribution	4,019	3,754	3,534	3,334	3,382
Other	63	63	63	51	31
	5,471	5,124	4,744	4,597	4,655
Costs					
Purchased power	2,628	2,474	2,326	2,181	2,240
Operation, maintenance and administration	1,092	1,078	1,057	965	995
Depreciation and amortization	616	583	537	548	521
	4,336	4,135	3,920	3,694	3,756
Income before financing charges and provision for payments in lieu of corporate income taxes	1,135	989	824	903	899
Financing charges	344	342	308	292	295
Income before provision for payments in lieu of corporate income taxes	791	647	516	611	604
Provision for payments in lieu of corporate income taxes	150	56	46	113	205
Net income	641	591	470	498	399
Basic and fully diluted earnings per common share *(Canadian dollars)*	6,228	5,727	4,528	4,797	3,809

December 31 (Canadian dollars in millions)	2011	2010	2009	2008	2007
Balance sheet data					
Assets					
Transmission	10,380	9,805	8,993	7,877	7,273
Distribution	7,336	6,908	6,481	5,873	5,407
Other	652	609	161	128	106
Total assets	18,368	17,322	15,635	13,878	12,786
Liabilities					
Current liabilities (including current portion of long-term debt)	1,820	1,540	1,655	1,300	1,452
Long-term debt	7,399	7,278	6,281	5,733	5,063
Other long-term liabilities	2,695	2,523	2,281	1,721	1,385
Shareholder's equity					
Share capital	3,637	3,637	3,637	3,637	3,637
Retained earnings	2,827	2,354	1,791	1,497	1,258
Accumulated other comprehensive income	(10)	(10)	(10)	(10)	(9)
Total liabilities and shareholder's equity	18,368	17,322	15,635	13,878	12,786

hydroOne

HYDRO ONE INC.
FIVE-YEAR SUMMARY OF FINANCIAL AND OPERATING STATISTICS (continued)

Year ended December 31 (Canadian dollars in millions)	2011	2010	2009	2008	2007
Other financial data					
Capital expenditures					
Transmission	810	936	918	704	560
Distribution	628	629	643	570	511
Other	9	5	5	10	20
Total capital expenditures	1,447	1,570	1,566	1,284	1,091
Ratios					
Net asset coverage on long-term debt[1]	1.81	1.77	1.79	1.84	1.87
Earnings coverage ratio[2]	2.71	2.39	2.15	2.63	2.67
Operating statistics					
Transmission					
Units transmitted *(TWh)*[3]	141.5	142.2	139.2	148.7	152.2
Ontario 20-minute system peak demand *(MW)*[3]	25,505	25,145	24,477	24,231	25,809
Ontario 60-minute system peak demand *(MW)*[3]	25,450	25,075	24,380	24,195	25,737
Total transmission lines *(circuit-kilometres)*	28,942	28,951	28,924	29,039	28,915
Distribution					
Units distributed to Hydro One customers *(TWh)*[3]	29.2	29.1	28.9	29.9	30.2
Units distributed through Hydro One lines *(TWh)*[3,4]	42.5	42.5	43.5	44.7	45.7
Total distribution lines *(circuit-kilometres)*	120,514	123,552	123,528	123,260	122,933
Customers	1,365,379	1,345,177	1,333,920	1,325,745	1,311,714
Total regular employees	5,781	5,717	5,427	5,032	4,602

[1] The net asset coverage on long-term debt ratio is calculated as total assets minus total liabilities excluding long-term debt (including current portion) divided by long-term debt (including current portion).

[2] The earnings coverage ratio has been calculated as the sum of net income, financing charges and provision for payments in lieu of corporate income taxes divided by the sum of financing charges, capitalized interest and cumulative preferred dividends.

[3] System-related statistics include preliminary figures for December.

[4] Units distributed through Hydro One lines represent total distribution system requirements and include electricity distributed to consumers who purchased power directly from the IESO.

hydroOne

Liquor Control Board of Ontario

Responsibility for Financial Reporting

The preparation, presentation and integrity of the financial statements are the responsibility of management. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgments and assumptions necessary to prepare the financial statements in accordance with Canadian generally accepted accounting principles, which complies with International Financial Reporting Standards. The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with International Financial Reporting Standards and include amounts that are based on management's best estimates and judgment.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board.

The Board, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, composed of five Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General of Ontario to satisfy itself that each group has properly discharged its respective responsibility. Also, the Office of the Auditor General of Ontario meets with the Audit Committee without management present.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:

President & Chief Executive Officer

Rob Dutton
Senior Vice President, Finance & Administration, and Chief Financial Officer
June 28, 2012

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Liquor Control Board of Ontario
and to the Minister of Finance

I have audited the accompanying financial statements of the Liquor Control Board of Ontario, which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of earnings, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Liquor Control Board of Ontario as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

June 28, 2012

Toronto, Ontario

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

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Liquor Control Board of Ontario
Statements of financial position

(thousands of Canadian dollars)

	Note	As at March 31 2012	As at March 31 2011	As at April 1 2010
ASSETS				
Current assets				
Cash and cash equivalents	4	249,392	222,060	217,791
Trade and other receivables	5	32,023	27,309	25,805
Inventories		356,944	372,271	342,434
Prepaid expenses		30,270	26,963	13,574
Total current assets		668,629	648,603	599,604
Non-current assets				
Property, plant and equipment	8	284,516	270,130	267,747
Intangible assets	9	27,106	25,683	25,276
Total non-current assets		311,622	295,813	293,023
Total assets		980,251	944,416	892,627
LIABILITIES				
Current liabilities				
Trade and other payables	6	471,439	465,407	427,060
Provisions	11	17,650	16,941	16,771
Current portion of non-pension employee benefits	12	12,017	12,728	12,161
Total current liabilities		501,106	495,076	455,992
Long-term liabilities				
Non-pension employee benefits	12	99,578	93,977	89,555
Total liabilities		600,684	589,053	545,547
EQUITY				
Retained earnings		385,298	357,064	347,080
Accumulated other comprehensive income		(5,731)	(1,701)	-
Total equity		379,567	355,363	347,080
Total liabilities and equity		980,251	944,416	892,627

See accompanying notes to the financial statements.

(1) In preparing its April 1, 2010 comparative information, the Board has adjusted amounts reported previously due to the transition to IFRS as explained in Note 25 to these financial statements.

Approved By:

Chair

Board Member, Chair, Audit Committee

Liquor Control Board of Ontario

Statements of earnings

(thousands of Canadian dollars)

Years Ended March 31,	Note	2012	2011
Revenues	17	4,711,550	4,493,284
Cost of sales	7	(2,346,690)	(2,245,484)
Gross margin		2,364,860	2,247,800
Other income		37,276	31,562
Selling, general and administrative expenses	18	(740,988)	(716,240)
Earnings from operations		1,661,148	1,563,122
Finance income	20	1,791	1,233
Finance costs	12 &20	(4,705)	(4,371)
Net earnings		1,658,234	1,559,984

See accompanying notes to the financial statements.

(1) In preparing its April 1, 2010 comparative information, the Board has adjusted amounts reported previously due to the transition to IFRS as explained in Note 25 to these financial statements.

Liquor Control Board of Ontario
Statements of comprehensive income

(thousands of Canadian dollars)

Years Ended March 31,	Note	2012	2011
Net earnings		1,658,234	1,559,984
Other comprehensive income (loss):			
Actuarial (losses) on non-pension employee benefits	*12*	(4,030)	(1,701)
Total other comprehensive income (loss)		(4,030)	(1,701)
Total comprehensive income		1,654,204	1,558,283

See accompanying notes to the financial statements.

(1) In preparing its April 1, 2010 comparative information, the Board has adjusted amounts reported previously due to the transition to IFRS as explained in Note 25 to these financial statements.

Liquor Control Board of Ontario

Statements of changes in equity

(thousands of Canadian dollars)

	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Opening balance , April 1, 2011	357,064	(1,701)	355,363
Net earnings	1,658,234		1,658,234
Non-pension employee benefit actuarial losses		(4,030)	(4,030)
Total comprehensive income	1,658,234	(4,030)	1,654,204
Dividends paid to the province	(1,630,000)		(1,630,000)
Ending Balance, March 31, 2012	385,298	(5,731)	379,567

	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Opening balance , April 1, 2010	347,080	-	347,080
Net earnings	1,559,984		1,559,984
Non-pension employee benefit actuarial losses		(1,701)	(1,701)
Total comprehensive income	1,559,984	(1,701)	1,558,283
Dividends paid to the province	(1,550,000)		(1,550,000)
Ending Balance, March 31, 2011	357,064	(1,701)	355,363

(1) In preparing its April 1, 2010 comparative information, the Board has adjusted amounts reported previously due to the transition to IFRS as explained in Note 25 to these financial statements.

Liquor Control Board of Ontario

Statements of cash flows

(thousands of Canadian dollars)

Years Ended March 31,	2012	2011
Cash flows from operating activities		
Net earnings	1,658,234	1,559,984
Amortization & depreciation	50,870	52,166
Non-pension employee benefit expenses	12,275	15,448
Non-pension employee benefit payments	(11,415)	(12,161)
(Gain) on sale of property, plant and equipment and intangible assets	(649)	(366)
	1,709,315	1,615,071
Adjustments for:		
(Increase) in trade and other receivables	(4,714)	(1,504)
(Increase)/ Decrease in inventories	15,327	(29,837)
(Increase) in prepaids	(3,307)	(13,389)
Increase in trade and other payables	6,032	38,347
Increase in provisions	709	170
Change in non-cash working capital	14,047	(6,213)
Net cash generated from operating activities	1,723,362	1,608,858
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(69,259)	(56,238)
Proceeds from sale of property, plant and equipment and intangible assets	3,229	1,649
Net cash used in investing activities	(66,030)	(54,589)
Cash used from financing activities		
Dividend paid to the Province of Ontario	(1,630,000)	(1,550,000)
Net cash used for financing activities	(1,630,000)	(1,550,000)
Increase in cash during the year	27,332	4,269
Cash and cash equivalents, beginning of year	222,060	217,791
Cash and cash equivalents, end of year	249,392	222,060

See accompanying notes to financial statements.

(1) In preparing its April 1, 2010 comparative information, the Board has adjusted amounts reported previously due to the transition to IFRS as explained in Note 25 to these financial statements.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2012 and 2011

(in thousands of Canadian dollars, except where otherwise noted)

1. General Information

The Liquor Control Board of Ontario ("the Board") is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The Board is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario ("Province").

As an Ontario Crown Corporation, the Board is exempt from income taxes. The Board transfers most of its earnings to the Province's Consolidated Revenue Fund in the form of a dividend.

The Board's head office is located at 55 Lake Shore Blvd East, Toronto, Ontario, Canada, M5E 1A4.

2. Basis of Preparation

a. Statement of compliance

These financial statements represent the first annual financial statements of the Board prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Board adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was April 1, 2010. In accordance with IFRS, the Board has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of April 1, 2010, as required; and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Board's financial statements were previously prepared in accordance with Generally Accepted Accounting Principles in Canada ("Canadian GAAP"). Canadian GAAP differs in various areas from IFRS. In preparing these financial statements, management has amended certain accounting measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 25 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS, along with line-by-line reconciliations of the Statement of financial position and Statement of equity as at March 31, 2011 and April 1, 2010, and the Statement of earnings and Statement of comprehensive income for the year ended March 31, 2011.

The financial statements are presented in Canadian dollars ("C$"), the Board's functional currency.

The audited financial statements were approved by the Board of directors and authorized for issue on June 28, 2012.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2012 and 2011

(in thousands of Canadian dollars, except where otherwise noted)

b. Basis of presentation

These financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value through profit and loss.

Use of estimates and judgments

The Board makes judgments and assumptions concerning the future that impact the application of policies and reported amounts. Judgment is used mainly in determining whether a balance or transaction should be recognized in the financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated. The resulting accounting estimates calculated using these judgments and assumptions will, by definition, seldom equal the related actual future results as they are based on historical experience and expectations of future events.

The judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in the financial statements are discussed below.

i. Non-pension employee benefits

The present value of the non-pension employee benefits obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the expense for the non-pension employee benefits include the discount rate. Any changes in these assumptions will impact the carrying amount of non-pension employee benefits obligations.

The Board determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, the Board uses the interest rates of high-quality corporate bonds that are denominated in the Canadian dollars in which the benefits will be paid. Other key assumptions for employee benefit obligations are based in part on current market conditions. Additional disclosures are presented in Note 12.

ii. Depreciation and amortization

The Board exercises judgment to determine useful lives of intangibles, and each significant component of property, plant and equipment. The assets are depreciated or amortized over their estimated useful lives. Additional disclosures are presented in Note 8 and 9.

iii. Impairment of property, plant and equipment and intangible assets

The Board has determined each store as a separate cash-generating unit ("CGU"). Where there are indicators for impairment, the Board performs an impairment test.

Intangible assets and property, plant and equipment are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount for CGUs are based on a calculation of expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. Additional disclosures are presented in Note 8 and 9.

iv. Allowance for impairment

The Board makes an assessment of whether trade and other receivables are collectible from customers. Accordingly, the Board establishes an allowance for estimated losses arising from non-payment, taking into consideration customer creditworthiness, current economic trends and past experience. If future collections differ from estimates, future earnings would be affected. Additional disclosures are presented in Note 5.

v. Inventories

The Board makes estimates on the warehouse handling costs that directly relate to bringing inventories to their selling location and condition. Accordingly, the Board includes the direct warehouse handling costs within inventories and are expensed to cost of sales in the period the inventories are sold. Additional disclosures are presented in Note 7.

vi. Leases

The Board leases certain retail stores and other assets. Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, and the discount rate of the lease.

vii. Provisions

Provisions have been made for certain employee benefits, sales returns and store closing costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Additional disclosures are presented in Note 11.

viii. Ontario Deposit Return Program unredeemed container deposit income

The Board has judged that not all Ontario Deposit Return Program ("ODRP") containers will be redeemed by customers for deposits paid on these containers. Estimates have been made for the redemption rate on ODRP containers based on past history and industry trends. The estimated unredeemed ODRP containers are treated as other income. Any difference between the expected and actual ODRP redemption will be accounted for in the year when such determination is made. Additional disclosures are presented in Note 23.

ix. Unredeemed Gift cards

The Board has judged that not all gift cards will be redeemed by customers. Estimates have been made for the redemption rate on gift cards based on past history and industry trends and are included in revenues.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2012 and 2011

(in thousands of Canadian dollars, except where otherwise noted)

c. New standards & interpretations not yet adopted

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and amendments that have not been applied in preparing our March 31, 2012 financial statements as their effective dates fall in periods beginning subsequent to the current financial reporting period.

Proposed standards and amendments	Description	Previous standard	Effective date (I)
IFRS 9 – Financial Instruments	Initially issued in November 2009 to address the classification and measurement of financial assets. Additional guidance issued in October 2010 on the classification and measurement of financial liabilities	IAS 39 – Financial Instruments: Recognition and Measurement	January 1, 2015
IFRS 13 – Fair Value Measurement	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value	Various – no direct replacement	January 1, 2013

The Board continues to evaluate the potential impact of standards and amendments effective in future periods on both quantitative and qualitative disclosure.

3. Significant Accounting Policies

a. Cash & Cash Equivalents

Cash and cash equivalents comprise of cash and highly liquid investments with original maturity dates of 90 days or less from the date of acquisition.

The Board's investment policy restricts short-term investments to highly liquid, high-grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2012 and 2011

(in thousands of Canadian dollars, except where otherwise noted)

b. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment, if any.

Account receivables are net of an allowance for impairment where there is objective evidence that the Board will not be able to collect all amounts due according to the original terms of the receivables. The allowance/loss is recognized as a selling, general and administrative expense in the Statement of earnings. In accordance with the Board purchase order agreement, the Board may offset any amounts that are payable by a supplier against amounts that are payable to a supplier. The resulting disclosures are presented in Note 5.

c. Inventories

The Board values inventories at the lower of cost and net realizable value with cost being determined by the weighted average cost method. Cost includes the cost of purchase net of vendor allowances and includes other direct costs, such as transportation and direct warehouse handling costs that are incurred to bring inventories to their present location and condition. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred. The Board estimates net realizable value as the amount that inventories are expected to be sold at, less the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable. The resulting disclosures are presented in Note 0.

d. Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition, construction or development of the asset.

Depreciation is recognized in the Statement of earnings over the expected useful lives of each major component of property, plant and equipment, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives for property, plant and equipment are as follows:

Buildings	5-40 years
Leasehold Improvements	5-20 years
Furniture and Equipment	5-20 years
Computer Equipment	3 years or 4 years

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2012 and 2011

(in thousands of Canadian dollars, except where otherwise noted)

Land assets are carried at cost, less any recognized impairment losses and are not depreciated. The Board reviews for any indicators of impairment annually; refer to the "Impairment of property, plant and equipment and intangible assets" section below.

Property, plant and equipment under construction and not available for use, are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

The cost of subsequently replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits related to the part will flow to the Board, and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Statement of earnings as incurred.

The resulting disclosures are presented in Note 8.

e. Intangible assets

i. Acquired intangible assets

Acquired intangible assets, such as software, are measured initially at cost and are amortized on a straight-line basis over their estimated useful lives.

The estimated useful lives for intangible assets are as follows:

Computer software	3 years or 4 years

The resulting disclosures are presented in Note 9.

ii. Internally generated intangible assets – research & development costs

Research costs are expensed as incurred.

Development expenditures incurred are capitalized only if all the following criteria are met:

- an asset is created that can be identified (such as software or new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Software under development and not available for use, are carried at cost, less any recognized impairment loss. When completed and ready for intended use these assets are amortized on the same basis as other acquired intangible assets. The resulting disclosures are presented in Note 9.

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f. Impairment of property, plant and equipment and intangible assets

Annually the Board reviews the carrying amounts of its property, plant and equipment and intangible assets for indicators of impairment to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Board estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For property, plant and equipment and intangible assets, the CGU is deemed to be each retail store.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. Any impairment charge is recognized in the statement of earnings in the year in which it occurs. The resulting disclosures are presented in Note 8 and 9.

g. Trade and other payables

Trade and other payables are classified as other financial liabilities and are generally short term in nature and due within one year of the Statement of financial position date. Trade payables are non interest-bearing and are stated at amortized cost. The resulting disclosures are presented in Note 6.

h. Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation. The resulting disclosures are presented in Note 11.

i. Financial instruments

Financial assets and financial liabilities are recognized when the Board becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value.

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The Board's financial assets and liabilities are generally classified and measured as follows:

Financial Asset / Financial Liability	Category	Measurement
Cash and cash equivalents	Loans and receivable or available for sale	Fair value which approximates amortized cost due to the short-term nature of the instruments.
Trade and other receivables	Loans and receivable	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Derivatives and embedded derivatives[1]	Fair value through profit and loss ("FVTPL")	Fair value through profit and loss ("FVTPL")

[1] Derivatives are included in Trade and other payables in the Statement of financial position.

i. Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial instruments are classified as FVTPL when the financial instrument is either held for trading or designated as such upon initial recognition. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the near future or it has been part of an identified portfolio of financial instruments that the Board manages together and has a recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading.

Financial instruments classified as FVTPL are measured at fair value, with changes in fair value recorded in the Statement of earnings in the period in which they arise.

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Available for sale ("AFS")

Financial instruments classified as AFS financial assets are measured at fair value with changes in fair value recognized in other comprehensive income ("OCI") until realized through disposal or impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

ii. Financial liabilities

Financial liabilities are classified as 'other financial liabilities', which are subsequently measured at amortized cost using the effective interest method.

iii. Derivatives

A derivative financial instrument is a fixed price commitment to buy or sell a financial instrument at a future date. Derivatives financial instruments are classified as at FVTPL. Derivatives are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at fair value, with changes recognized in the Statement of earnings. The resulting disclosures are presented in Note 15.

iv. Embedded derivatives

An embedded derivative is a feature within a contract, where the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative. The Board enters into inventory purchase contracts in currencies other than the Canadian dollar or that of the supplier's home or local currency, in which an embedded derivative may exist.

These embedded derivatives are accounted for as separate instruments and accounted for independently from the host contract and are measured at fair value at the end of the reporting period using forward exchange market rates. Embedded derivatives are included within trade and other payables in the Statement of financial position, any changes in their fair values are recognized in the Statement of earnings. The resulting disclosures are presented in Note 15.

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j. Revenue recognition

Revenue consists of the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Board's activities less any sales taxes. Sales taxes on the sale of goods are recorded as a liability in the period the sales taxes are deemed to be owed and are excluded from revenues. Revenue is recognized when the significant risks and rewards of ownership of the goods have transferred to the buyer and the amount of revenue can be measured reliably. Revenue is recorded net of returns, discounts, applicable taxes and container deposits, in the Statement of earnings.

Revenue generated from gift cards is recognized when gift cards are redeemed. The Board also recognizes revenue from unredeemed gift cards if the likelihood of gift card redemption by the customer is considered to be remote.

k. Other income

i. Services rendered

Income from services rendered is recognized when the services are provided and the income can be measured reliably. Such services consist principally of border point levies and fees generated from special occasion permits such as those required by an individual or organization, who plan to serve alcohol at an event or location other than a private place.

ii. Unredeemed ODRP container deposits

The Board recognizes income from estimated unredeemed ODRP container deposits as not all customers return the container for their deposit. The Board determines its ODRP container redemption rate based on historical redemption data and research of industry experience and estimates the unredeemed ODRP container deposit income. The resulting income is recognized based on historical redemption patterns, commencing when the container deposits are collected. The resulting disclosures are presented in Note 23.

iii. Air Miles

Income from the Air Miles "program" is recognized in the period in which it is earned, in accordance with the terms of the contract. The program is split into two distinct components: (1) Base and (2) Bonus. The associated costs of the Base are accounted for as a reduction to revenues in the Statement of earnings. The associated income net of costs of the Bonus are accounted for as a reduction to cost of sales in the Statement of earnings.

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l. Vendor allowances

The Board receives allowances from certain suppliers whose product it purchases for resale. The allowances are received for a variety of promotional activities, including allowances received for in store promotion of the supplier's product, advertising the launch of a new product and labeling and shelf space provided on limited time product offers. The Board recognizes consideration received from vendors as a reduction in the price of the vendors' products and reflects it as a reduction to cost of sales when recognized in the Statement of earnings. Certain exceptions apply where the cash consideration received is a direct reimbursement of specific, incremental and identifiable costs incurred by the Board for assets or services delivered to the vendor or reimbursement of selling costs incurred to promote the vendor's product. The consideration is reflected as a reduction in selling, general and administrative expenses.

m. Employee benefits

i. Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. The Board recognizes a liability and an expense for short-term benefits such as performance pay, unused vacation entitlements and other employee benefits if the Board has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably. The resulting disclosures are presented in Note 19.

ii. Pension Benefit Costs

The Board provides defined pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund). The Province, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines the Board's annual contribution to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Board.

The Board's contributions to both plans are accounted for on a defined contribution basis with the Board's contribution charged to the Statement of earnings in the period the contributions become payable. The resulting disclosures are presented in Note 12.

iii. Non-pension employee benefits

Employee benefits other than those provided by the Province include accrued contractual severance payments ("CSC"), executive compensation time banking ("ECTB"), unfunded workers compensation obligation ("WCB") and long-term income protection ("LTIP") benefits. These plans provide benefits to employees when they are no longer providing active service. The Board accrues these employee benefits over the periods in which the employees earn

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the benefits. The cost of other post-retirement, non-pension employee benefits is paid by the Province and is not included in the Statement of earnings.

The cost of the CSC, ECTB and LTIP was actuarially determined by using the Projected Unit Credit Method and management's best estimate. The WCB liability was determined using the average awards method. The annual benefit cost is the sum of the service cost, one year's interest cost and any amortization of gains and losses.

The Board recognizes all actuarial gains and losses arising from the CSC and ECTB benefits immediately in other comprehensive income, and reports them in accumulated other comprehensive income in the Statement of financial position, as these benefits are accrued over employee's years of service. Any actuarial gains and losses arising from the LTIP and WCB benefits are recognized in the Statement of earnings in the period in which they arise, since LTIP and WCB benefits are based upon an event of injury and/or disability. The resulting disclosures are presented in Note 12.

n. Finance income

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in the Statement of earnings, using the effective interest method. The resulting disclosures are presented in Note 20.

o. Finance costs

Finance costs consist of interest expense on the non-pension employee benefits obligation. The resulting disclosures are presented in Notes 12 and 20.

p. Leasing

Operating lease payments, including scheduled escalations, are recognized as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability and amortized over the lease term. The aggregate benefit of incentives is recognized as a reduction of selling, general and administrative expenses on a straight-line basis. The resulting disclosures are presented in Note 10.

q. Foreign currencies

Transactions in currencies other than the Board's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange gains and losses are recognized immediately in the Statement of earnings.

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4. Cash and Cash Equivalents

Cash and cash equivalents include both cash on hand and in transit, and short term investments (such as term deposits and bankers acceptance), as follows:

	March 31, 2012	March 31, 2011	April 1, 2010
Cash on hand and in transit	88,062	66,511	75,190
Term deposits	17,995	63,000	35,699
Bankers acceptances	143,335	92,549	106,902
	249,392	222,060	217,791

5. Trade and Other Receivables

	March 31, 2012	March 31, 2011	April 1, 2010
Trade and other receivables	32,290	27,511	25,905
Allowance for impairment	(267)	(202)	(100)
	32,023	27,309	25,805

Trade and other receivables arise primarily from sales billed to independent businesses, agents and other debtors. As at March 31, 2012, approximately 68% (2011 – 64%) of the Board's accounts receivable is due from one customer. Almost all of the Board's receivables are due within 30 days.

The carrying amount of trade and other receivables is reduced through the use of an allowance for impairment at levels the Board considered adequate to absorb future credit losses. Subsequent recoveries of receivables previously provisioned are credited to the Statement of earnings.

6. Trade and Other Payables

	March 31, 2012	March 31, 2011	April 1, 2010
Trade payables	234,631	229,407	206,064
Accruals and other payables	236,808	236,000	220,996
	471,439	465,407	427,060

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7. Inventories

All inventories are held for sale. The cost of inventories sold and recognized as a cost of sales during the year ended March 31, 2012 was $2,347 million (2011 - $2,245 million). There were no significant write-downs or reversal of previous write-downs to net realizable value during the year ended March 31, 2012 (2011 – nil).

8. Property, Plant & Equipment

Net Book Value of property, plant & equipment	**March 31, 2012**	**March 31, 2011**	**April 1, 2010**
Land	12,816	12,816	12,895
Buildings	106,289	105,694	107,123
Furniture and equipment	23,645	21,040	19,790
Leasehold improvements	110,646	111,441	106,284
Computer Equipment	12,160	10,798	12,190
Construction in progress	18,960	8,341	9,465
	284,516	270,130	267,747

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a. Property, plant & equipment

Property, plant & equipment continuity for the year ended March 31, 2012

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Construction in progress	Total
Cost							
Balance at April 1, 2011	12,816	369,889	93,692	321,804	56,766	8,341	863,308
Additions		10,670	11,706	18,506	8,035	58,050	106,967
Disposals/Retirements		(2,223)	(6,207)	(1,792)	(27,404)		(37,626)
Transfers among categories						(47,431)	(47,431)
Balance at March 31, 2012	**12,816**	**378,336**	**99,191**	**338,518**	**37,397**	**18,960**	**885,218**
Accumulated depreciation and impairment							
Balance at April 1, 2011	-	264,195	72,652	210,363	45,968	-	593,178
Depreciation for the year	-	9,487	7,895	19,296	6,220	-	42,898
Impairment losses	-		(834)			-	(834)
Transfers among categories	-	-	-	-	-	-	-
Disposals/Retirements	-	(1,635)	(4,167)	(1,787)	(26,951)	-	(34,540)
Balance at March 31, 2012	-	**272,047**	**75,546**	**227,872**	**25,237**	-	**600,702**
Net book value at March 31, 2012	**12,816**	**106,289**	**23,645**	**110,646**	**12,160**	**18,960**	**284,516**

Property, plant & equipment continuity for the year ended March 31, 2011

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Construction in progress	Total
Cost							
Balance at April 1, 2010	12,895	363,367	85,146	301,131	55,033	9,465	827,037
Additions	15	8,323	11,471	21,695	5,101	46,018	92,623
Disposals/Retirements	(94)	(1,801)	(2,925)	(1,022)	(3,368)		(9,210)
Transfers among categories						(47,142)	(47,142)
Balance at March 31, 2011	**12,816**	**369,889**	**93,692**	**321,804**	**56,766**	**8,341**	**863,308**
Accumulated depreciation and impairment							
Balance at April 1, 2010	-	256,244	65,356	194,847	42,843	-	559,290
Depreciation for the year	-	9,313	8,632	16,485	6,174	-	40,604
Impairment losses	-	-	-	-	-	-	-
Transfers among categories	-	-	-	-	-	-	-
Disposals/Retirements	-	(1,362)	(1,336)	(969)	(3,049)	-	(6,716)
Balance at March 31, 2011	-	**264,195**	**72,652**	**210,363**	**45,968**	-	**593,178**
Net book value at March 31, 2011	**12,816**	**105,694**	**21,040**	**111,441**	**10,798**	**8,341**	**270,130**

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9. Intangibles

Net Book Value of intangible assets	**March 31, 2012**	**March 31, 2011**	**April 1, 2010**
Computer software	22,340	24,874	19,144
Software in development	4,766	809	6,132
Total intangible assets net book value	**27,106**	**25,683**	**25,276**

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a. Intangibles

Intangible assets continuity for the year ended March 31, 2012

	Software	Software under development	Total
Cost			
Balance at April 1, 2011	93,877	809	94,686
Additions	6,272	10,168	16,440
Disposals/Retirements	(41,567)		(41,567)
Transfers among categories		(6,211)	(6,211)
Balance at March 31, 2012	**58,582**	**4,766**	**63,348**
Accumulated amortization and impairment			
Balance at April 1, 2011	69,003	-	69,003
Amortization for the year	8,807		8,807
Impairment losses	-	-	-
Transfers among categories	-	-	-
Disposals/Retirements	(41,568)	-	(41,568)
Balance at March 31, 2012	**36,242**	**-**	**36,242**
Net book value at March 31, 2012	**22,340**	**4,766**	**27,106**

Intangible assets continuity for the year ended March 31, 2011

	Software	Software under development	Total
Cost			
Balance at April 1, 2010	80,373	6,132	86,505
Additions	13,629	8,276	21,905
Disposals/Retirements	(125)	(2,800)	(2,925)
Transfers among categories		(10,799)	(10,799)
Balance at March 31, 2011	**93,877**	**809**	**94,686**
Accumulated amortization and impairment			
Balance at April 1, 2010	61,229	-	61,229
Amortization for the year	7,846	-	7,846
Impairment losses	-	-	-
Transfers among categories	-	-	-
Disposals/Retirements	(72)	-	(72)
Balance at March 31, 2011	**69,003**	**-**	**69,003**
Net book value at March 31, 2011	**24,874**	**809**	**25,683**

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10. Operating Lease Arrangement

The Board enters into operating leases in the ordinary course of business, primarily for retail stores. Operating lease payments in 2012 were $59.3 million (2011 – $56.5 million). The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	March 31, 2012
Not later than one year	63,963
Later than one year and not later than five years	250,106
Later than five years	463,122
	777,191

11. Provisions

The following table represents the changes to the Board's provisions:

Provisions continuity for the year ended March 31, 2012

	Short term employee benefits	Other	Total
Balance at April 1, 2011	16,581	360	16,941
Charges recognized during the year	17,305	345	17,650
Utilization of provision	(16,581)	(360)	(16,941)
Balance at March 31, 2012	**17,305**	**345**	**17,650**

Provisions continuity for the year ended March 31, 2011

	Short term employee benefits	Other	Total
Balance at April 1, 2010	16,469	302	16,771
Charges recognized during the year	16,581	360	16,941
Utilization of provision	(16,469)	(302)	(16,771)
Balance at March 31, 2011	**16,581**	**360**	**16,941**

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	March 31, 2012	March 31, 2011	April 1, 2010
Disclosed as:			
Current	17,650	16,941	16,771
Non-current	-	-	-
	17,650	16,941	16,771

The employee benefits provision includes vacation entitlements earned by employees and performance bonus payments expected to be paid in the following year.

Other provisions include store closure provisions, which arise when the Board agrees to restore a leased property to a specified condition at the completion of the lease period. These lease retirement provisions relate primarily to leases which expire over the next year. Other provisions also include a sales returns allowance for future returns on goods sold in the current period. The estimate has been made on the basis of historical sales returns trends.

12. Employee Benefits

a. Pension plan

For the year ended March 31, 2012, the expense was $24.7 million (2011 – $22.3 million) and is included in selling, general and administrative expenses in the Statements of earnings.

b. Non-pension employee benefits

The non-pension employee benefits obligation ("benefit obligation") include accruals for contractual severance payments ("CSC"), executive compensation time banking ("ECTB"), long-term income protection ("LTIP") and unfunded workers compensation obligation ("WCB").

The Board measures its benefit obligation for accounting purposes as at March 31st of each year. The annual actuarial valuation for the benefit obligation was performed as at March 31, 2012.

i. Statements of financial position

The non-pension employee benefits recognized in the Statements of financial position is as follows:

	March 31, 2012	March 31, 2011	April 1, 2010
Current	12,017	12,728	12,161
Non-current	99,578	93,977	89,555
Total non-pension employee benefit obligation	111,595	106,705	101,716

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ii. Statements of earnings

The non-pension employee benefit costs recognized in the Statements of earnings is as follows:

	March 31, 2012	March 31, 2011
Current service cost	7,073	7,583
Actuarial losses on non-vesting benefits	498	3,074
Total costs included in expenses	7,571	10,657
Interest costs	4,705	4,371
Total costs included in finance costs	4,705	4,371
Total non-pension employee benefit expenses	**12,276**	**15,028**

iii. Other comprehensive income

The non-pension employee benefits recognized in the other comprehensive income are as follows:

	March 31, 2012	March 31, 2011
Opening cumulative actuarial (losses) recognized	(1,701)	-
Net actuarial (losses) recognized	(4,030)	(1,701)
Closing cumulative actuarial (losses) recognized	(5,731)	(1,701)

iv. Movement in the obligation

The movements in the non-pension employee benefit obligation are as follows:

	March 31, 2012	March 31, 2011
Opening benefit obligation	106,705	101,716
Current service cost	7,073	7,583
Interest on obligation	4,705	4,791
Actuarial losses	4,528	4,776
Benefits paid	(11,415)	(12,161)
Closing benefit obligation	111,596	106,705

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v. Significant assumptions

The significant assumptions used are as follows:

	CSC & ECTB		WCB		LTIP	
	2012	2011	2012	2011	2012	2011
Discount rate to determine the benefit obligation	3.50%	4.50%	3.50%	4.50%	3.50%	4.50%
Discount rate to determine the benefit cost	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Salary rate increase	3.00%	3.00%	4.00%	4.00%	2.50%	2.50%
Health cost rate increase	N/A	N/A	6.50%	6.50%	8.00%	8.00%

13. Contingent Liabilities

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time however the ultimate disposition will not have a material effect on the financial statements. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingent liabilities will be accounted for in the period in which the settlement occurs.

14. Financial Risk Management

The nature of the Board's operations means that it is exposed to a variety of financial risks, which includes market risk (primarily currency risk), credit risk and liquidity risk. The Board's risk management approach is to minimize the potential adverse effects from these risks on its financial performance. Financial risk management is carried out by the Board in accordance with its investment and foreign exchange risk management policy. The Board identifies, evaluates and mitigates financial risks.

a. Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and outstanding accounts receivable. The Board minimizes credit risk associated with the various instruments as follows:

- Derivative financial instruments and cash and cash equivalents are placed only with major Canadian chartered banks and Canadian subsidiaries of major banks. At March 31, 2012, all derivative instruments and cash and cash equivalents were held with major chartered banks and Canadian subsidiaries of major foreign banks.
- Trade and others receivables arise primarily from sales invoiced to independent businesses, agents and other debtors. The Board does not consider its exposure to credit risk associated with

trade and other receivables to be material. As at March 31, 2012, approximately 68% (2011 – 64%) of the Board's receivable is due from one customer whose account is in good standing.

- Where there is objective evidence that the total balance of an accounts receivable is unlikely to be recovered, an allowance for impairment is made to reduce the carrying amount of the accounts receivable to the recoverable amount. See Note 5 for additional disclosures.

b. Liquidity Risk

Liquidity risk is the risk that the Board may not have cash available to satisfy financial liabilities as they fall due. The Board seeks to limit its liquidity risk by actively monitoring and managing its available cash reserves to ensure that it is able to satisfy financial liabilities as they fall due.

Cash that is surplus to working capital requirements is managed by the Board and invested in federal/provincial treasury bills, bankers' acceptances and bank term deposits, choosing maturities which are aligned with expected cash needs.

c. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk comprises of three types of risk: currency risk, interest rate risk and other price risk. Currently, the Board is exposed only to currency risk.

d. Currency Risk

The Board is exposed to currency risk with respect to future inventory purchases dominated in currencies other than Canadian dollar, primarily US dollars and Euros. The Board seeks to limit its exposure to currency risk by entering into Canadian dollar contracts on a majority of its inventory purchases. The Board also limits its exposure to movements in exchange rate by acquiring foreign exchange forward contract, which are commitments to purchase foreign currencies at a specified date in the future at a fixed rate.

- In the Board's assessment, a significant strengthening or weakening of the Canadian dollar against the US dollar or Euro, with all other variables held constant, would not have a significant impact on revenue.

- The overall effects of changes in exchange rates was a foreign exchange gain of $ 3.1 million in 2012 (2011 - $3.1 million).

15. Financial Instruments

a. Foreign Exchange Forward Contracts

The Board uses foreign exchange forward contracts to manage foreign exchange risk on the purchase of inventory in a currency other than the Canadian dollar. These derivative financial instruments are measured at fair value. As at March 31, 2012, the Board has no foreign exchange forward contracts (2011 - $nil).

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b. Embedded Derivative

Embedded derivatives arise from the purchase of inventory in a currency other than Canadian dollar or that of the supplier's domestic or local currency. For the year ended March 31, 2012, the Board reviewed these contracts and determined that it does not have significant embedded derivatives or gains or losses resulting from these derivatives that require separate accounting and disclosure (2011 - $nil).

16. Capital Management

The Board is a corporation without share capital and has no long-term debt. Its definition of capital is cash and cash equivalents and retained earnings. The Board's main objectives when managing its capital are:

- to ensure sufficient liquidity in support of its financial obligations to achieve its business plans;
- to maintain healthy liquidity reserves and access to capital as outlined in its investment and foreign exchange policies;
- to ensure that cash management decisions are based upon the preservation of capital as a primary objective; and.
- to safeguard the Board's ability to remain as a self-sufficient going concern entity in order to provide continuous dividends to the Province.

As at March 31, 2012 the Board met these objectives.

In managing cash and cash equivalents, the Board maintains balances that are:

- sufficient to meet its accounts payable obligations due within the next 45-60 days;
- sufficient to meet the timing of dividend transfers; and
- sufficient to meet approved capital expenditures throughout the current period.

The Board is not subject to any externally imposed capital requirements.

17. Revenue

Virtually all revenue is from the sale of goods.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2012 and 2011

(in thousands of Canadian dollars, except where otherwise noted)

18. Selling, General and Administrative Expenses by Nature

The components of selling, general and administration expenses include the following:

	March 31, 2012	March 31, 2011
Employee Costs (Note 19)	409,740	395,906
Occupancy Costs	131,921	126,452
Depreciation	50,870	52,166
Debit/Credit Charges	30,106	27,629
Environmental Initiatives	35,876	33,868
Other	82,485	80,219
	740,998	716,240

19. Employee Costs

Employee costs for the Board for the year ended amounts to the following:

	March 31, 2012	March 31, 2011
Salaries & wages	329,172	319,975
Short-term employee benefits	80,568	75,931
	409,740	395,906

20. Finance Income and Finance Costs

Finance income and costs recognized by the Board for the year ended amounts to the following:

	March 31, 2012	March 31, 2011
Finance income		
Interest earned	1,791	1,233
Total finance income	1,791	1,233
Finance costs		
Interest on non-pension employee benefits	4,705	4,371
Total finance costs	4,705	4,371

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2012 and 2011

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21. Related Parties

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Board. Key management personnel include members of the Board of Directors, President and Chief Executive Officer, Chief Financial Officer and the top twelve senior officers. The Board members receive a per diem remuneration for attending regularly scheduled meetings and for serving on either the Audit Committee or the Governance and Compensation Committee.

Key management personnel compensation, including director's fees comprise of:

	March 31, 2012	March 31, 2011
Salaries and short-term employee benefits	3,501	3,846
Post-employment benefits	214	234
Other long term benefits	45	61
Termination benefits	43	332
	3,803	4,473

22. Waste Diversion

The Board is responsible under the *Waste Diversion Act*, 2002 to pay municipalities through Stewardship Ontario, an industry funded waste diversion organization for costs associated with container waste and non-container waste recycled through municipal Blue Box systems. For the year ended March 31, 2012, the Board contributed $1.7 million (2011 - $1.8 million) and these expenditures are included in selling, general and administrative expenses in the Statements of earnings.

23. Ontario Deposit Return Program

On November 6, 2006, the Province entered into an agreement with Brewers Retail Inc. for management of a province-wide container deposit return program ("the program") on wine, liquor and non-common beer containers sold through the Board and Winery, on-site Microbrewery and Distillery Retail Stores. Brewers Retail Inc. was appointed the exclusive service provider for a period of five years effective February 5, 2007. Effective, February 6, 2012, the Province entered into another agreement with Brewers Retail Inc for management of the program, thereby extending the program for another period of five years.

Under the program, the Board collects a deposit of 10 or 20 cents on wine, liquor and beer containers. The Board reimburses Brewers Retail Inc. for deposits it pays to customers who return containers to locations it operates, plus a service fee.

For the year ended March 31, 2012, the Board collected $58.9 million (2011 – $57.8 million) of deposits on containers which was included in the Statements of earnings. The Board was invoiced $47.2 million (2011 - $45.2 million) for refunds to the customers. These amounts are included in trade and other payables in the Statements of financial position.

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For the years ended March 31, 2012 and 2011

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In connection with the program, expenditures related to service fees paid to Brewers Retail Inc. for the year ended March 31, 2012, amounted to $34.2 million (2011 - $32.0 million), inclusive of $3.9 million (2011 – $2.9 million) of harmonized sales tax which is unrecoverable by the Board, but is recoverable by the Province. These expenditures are included in selling, general and administrative expenses in the Statements of earnings.

The Board's experience indicates that not all container deposits are redeemed. Based upon its redemption data and research of industry experience, part of the container deposits collected would not be redeemed. Based on historical redemption patterns, for the year ended March 31, 2012, the Board estimated an 80% redemption rate for the program. Accordingly, for the year ended March 31, 2012 the Board applied $11.7 million (2011 - $11.6 million) of unredeemed deposits as an increase to other income.

24. The Beer Store deposit return program (TBS)

The Board participates in a separate deposit-refund system ("TBS program") that is managed and administered by Brewers Retail Inc. for containers that are not within the scope of the Ontario Deposit Return Program. The TBS program is not mandated by government regulations; however the TBS program is a requirement in participating and dealing with Brewers Retail Inc.

Under the TBS program, the Board purchases certain beer products from Brewers Retail Inc. whereby a deposit is paid to Brewers Retail Inc. for the containers. Subsequently, upon the eventual sale of the products, the Board collects any previous deposits paid directly from the customer. The Board has determined that it acts as an "agent" in the TBS program transaction, and the TBS program deposits paid and collected are offset and included in trade and other receivables in the Statements of financial position.

For the year ended March 31, 2012, $2.0 million (2011 – $2.2 million) is included in trade and other receivables related to the TBS program deposits.

25. Transition to IFRS

These financial statements represent the first annual financial statements of the Board prepared in accordance with IFRS, as issued by the IASB. The Board adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was April 1, 2010 ("transition date"). In accordance with IFRS, the Board has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of March 31, 2012, as required, and
- applied certain optional exemptions and certain mandatory exceptions as applicable for first time IFRS adopters.

The Board's financial statements were previously prepared in accordance with Canadian GAAP.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2012 and 2011

(in thousands of Canadian dollars, except where otherwise noted)

a. IFRS 1 exemptions and elections

IFRS 1 requires retrospective application of IFRS as at the transition date. However, IFRS 1 allows certain optional exemptions and mandatory exceptions from the retrospective application requirement.

The Board has elected the following treatments relating to optional exemptions from retrospective application of IFRS at the transition date:

i. Property, plant & equipment and intangible assets - fair value or revaluation at deemed cost

Under IFRS 1 an entity may elect to revalue its property, plant & equipment and intangible assets at fair value at the transition date and use this fair value as the deemed transition cost. At the transition date, the Board did not take this exemption as the Board chose to measure its property, plant and equipment and intangible assets at its historical cost.

ii. Employee benefits - actuarial gain and losses

Under IFRS 1, an entity may elect to recognize all cumulative actuarial gains and losses at the date of transition through opening retained earnings. The Board chose to take this exemption and has recognized $12.4 million of actuarial losses through opening retained earnings at the transition date.

iii. Borrowing costs

IFRS requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or development of an asset that takes a substantial period of time to prepare for its intended use. IFRS 1 allows an entity to adopt this policy prospectively as at the date of transition. The Board has elected to take this exemption and will prospectively capitalize any applicable borrowing costs that are directly attributable to the acquisition, construction and development of assets that take a substantial period of time to prepare for its intended use.

IFRS 1 also provides certain mandatory exceptions to the retrospective application requirement. The Board has applied the following exception in preparing its opening and comparative financial statements:

iv. Estimates

Any estimates made in accordance with IFRS at the transition date are consistent with those determined under Canadian GAAP.

LIQUOR CONTROL BOARD OF ONTARIO

Notes to Financial Statements

For the years ended March 31, 2012 and 2011

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b. Reconciliation of equity from Canadian GAAP to IFRS

	Note	March 31, 2011	April 1, 2010
Total equity reported under Canadian GAAP		392,095	379,786
IFRS transitional adjustments			
Actuarial losses	1	(13,466)	(12,444)
Short-term employee benefits	2	(7,339)	(7,131)
Non-pension employee benefits	3	(13,875)	(11,406)
Property, plant & equipment	4	(1,691)	(1,423)
Provisions	5	(361)	(302)
Total IFRS transitional adjustments		(36,732)	(32,706)
Total equity reported under IFRS		**355,363**	**347,080**

c. Reconciliation of comprehensive income from Canadian GAAP to IFRS

Net earnings under Canadian GAAP		1,562,309
Adjustments		
Actuarial losses	1	679
Short-term employee benefits	2	(209)
Non-pension employee benefits	3	(2,470)
Property, plant & equipment	4	(268)
Provisions	5	(57)
Total IFRS transitional adjustments		(2,325)
Net earnings under IFRS		**1,559,984**
Other comprehensive income under Canadian GAAP		-
Actuarial losses recognized through OCI	7	(1,701)
Other comprehensive income under IFRS		**(1,701)**
Total comprehensive income under IFRS		**1,558,283**

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Notes to Financial Statements

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(in thousands of Canadian dollars, except where otherwise noted)

d. Reconciliation of Opening IFRS Balance Sheet from Canadian GAAP to IFRS as at April 1, 2010

	Prepared under previous Canadian GAAP	IFRS Reclassification 7	Actuarial losses 1	Short-term employee benefits 2	Non-pension employee benefits 3	Property, plant and equipment 4	Provisions 5	IFRS Adjustments	Total impact of IFRS	Prepared under IFRS
ASSETS										
Current										
Cash and cash equivalents	217,791	-						-	-	217,791
Trade and other receivables	23,705	2,100						-	2,100	25,805
Inventories	344,534	(2,100)						-	(2,100)	342,434
Prepaid expenses	13,574	-						-	-	13,574
	599,604	-	-	-	-	-	-	-	-	599,604
Non-current										
Property, plant and equipment & intangible	294,446	-				(1,423)		(1,423)	(1,423)	293,023
Total non-current assets	294,446	-	-	-	-	(1,423)	-	(1,423)	(1,423)	293,023
Total assets	894,050	-	-	-	-	(1,423)	-	(1,423)	(1,423)	892,627
LIABILITIES										
Current										
Trade and other payables	436,397	(9,337)						-	(9,337)	427,060
Provisions	-	9,337		7,131			302	7,433	16,770	16,770
Current portion of non-pension employee benefits	5,925	6,236			-			-	6,236	12,161
Total current liabilities	442,322	6,236	-	7,131	-	-	302	7,433	13,669	455,991
Long-term										
Non-pension employee benefits	71,942	(6,236)	12,444		11,406			23,850	17,614	89,556
Total long-term liabilities	71,942	(6,236)	12,444	-	11,406	-	-	23,850	17,614	89,556
Total liabilities	514,264	-	12,444	7,131	11,406	-	302	31,283	31,283	545,547
EQUITY										
Retained earnings	379,786	-	(12,444)	(7,131)	(11,406)	(1,423)	(302)	(32,706)	(32,706)	347,080
Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total equity	379,786	-	(12,444)	(7,131)	(11,406)	(1,423)	(302)	(32,706)	(32,706)	347,080
Total liabilities and equity	894,050	-	-	-	-	(1,423)	-	(1,423)	(1,423)	892,627

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Notes to Financial Statements

For the years ended March 31, 2012 and 2011

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e. Reconciliation of statement of financial position from previous Canadian GAAP to IFRS as at March 31, 2011

	Prepared under previous Canadian GAAP	IFRS Reclassification 7	Actuarial losses 1	Short-term employee benefits 2	Non-pension employee benefits 3	Property, plant & equipment 4	Provisions 5	Total IFRS Adjustments	Prepared under IFRS
ASSETS									
Current assets									
Cash and cash equivalents	222,060	-						-	222,060
Trade and other receivables	25,090	2,219						2,219	27,309
Inventories	374,490	(2,219)						(2,219)	372,271
Prepaid expenses	26,963	-						-	26,963
Total current assets	648,603	-	-	-	-	-	-	-	648,603
Non-current assets									
Property, plant and equipment & intangible assets	297,504	-				(1,691)		(1,691)	295,813
Total non-current assets	297,504	-	-	-	-	(1,691)	-	(1,691)	295,813
Total assets	946,107	-	-	-	-	(1,691)	-	(1,691)	944,416
LIABILITIES									
Current liabilities									
Trade and other payables	474,648	(9,241)						(9,241)	465,407
Provisions		9,241		7,339			361	16,941	16,941
Current portion of non-pension employee benefits	7,583	5,145						5,145	12,728
Total current liabilities	482,231	5,145	-	7,339	-	-	361	12,845	495,076
Long-term liabilities									
Non-pension employee benefits	71,781	(5,145)	13,466		13,875			22,196	93,977
Total long-term liabilities	71,781	(5,145)	13,466	-	13,875	-	-	22,196	93,977
Total liabilities	554,012	-	13,466	7,339	13,875	-	361	35,041	589,053
EQUITY									
Retained earnings	392,095	-	(11,765)	(7,339)	(13,875)	(1,691)	(361)	(35,031)	357,064
Accumulated other comprehensive income		-	(1,701)					(1,701)	(1,701)
Total equity	392,095	-	(13,466)	(7,339)	(13,875)	(1,691)	(361)	(36,732)	355,363
Total liabilities and equity	946,107	-	-	-	-	(1,691)	-	(1,691)	944,416

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Notes to Financial Statements

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f. Reclassified statement of earnings format under previous Canadian GAAP for the year ended March 31, 2011

Format under previous Canadian GAAP	March 31, 2011	Adjustment	Reclass of statement of earnings under IFRS	Format under IFRS	March 31, 2011
Sales	4,576,871	(33,958)	4,542,913	Revenue	4,493,284
Cost of sales	2,279,072	16,219	2,295,291	Cost of sales	2,245,484
		(50,177)	(50,177)	Gross margin	2,247,800
		31,742	31,742	Other income	31,562
Retail stores and marketing	484,632	(484,632)	-		
Warehousing and distribution	87,192	(87,192)	-		
Administration	110,554	(110,554)	-		
Amortization	53,112	(53,112)	-		
		713,917	713,917	Selling, general and administrative expenses	716,240
		3,138	3,138	Earnings from operations	1,563,122
		1,233	1,233	Finance income	1,233
		4,371	4,371	Finance costs	4,371
			-		
Net earnings	**1,662,309**	-	1,562,309	**Net earnings**	**1,559,984**

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g. Reconciliation of statement of earnings from previous Canadian GAAP to IFRS for the year ended March 31, 2011

	Function of expenses format under previous Canadian GAAP	IFRS Adjustments							Prepared under IFRS
	Reclass of statement of earnings under IFRS	Actuarial losses 1	Short-term employee benefits 2	Non-pension employee benefits 3	Property, plant & equipment 4	Provisions 5	TBS 6	Total IFRS adjustments	Prepared under IFRS
Revenue	4,542,913	-	-	-	-	(25)	(49,604)	(49,629)	4,493,284
Cost of sales	2,295,291	-	-	-	-	-	(49,807)	(49,807)	2,245,484
Gross margin	2,247,622	-	-	-	-	(25)	203	178	2,247,800
Other income	31,742				23		(203)	(180)	31,562
Selling, general and administrative expenses	713,917	(679)	209	2,470	291	32	-	2,323	716,240
Earnings from operations	1,565,447	679	(209)	2,470	(268)	(57)	-	(2,325)	1,563,122
Finance income	1,233	-	-	-	-	-	-	-	1,233
Finance costs	4,371	-	-	-	-	-	-	-	4,371
Net earnings	**1,562,309**	**679**	**(209)**	**2,470**	**(268)**	**(57)**	**-**	**(2,325)**	**1,559,984**

h. Explanation of IFRS adjustments

1. Actuarial losses

Under Canadian GAAP, the Board was using the corridor method to amortize actuarial gains and losses. Upon adoption of IFRS, the Board elected under IFRS 1 to recognize the cumulative actuarial losses for all non-pension employee benefits. As a result, all previously unrecognized actuarial losses as at April 1, 2010 have been recognized in retained earnings in the opening IFRS balance sheet. As well, the impact of using the corridor approach under Canadian GAAP in the Board's March 31, 2011 financial year has been adjusted to reflect its policy under IFRS to recognize actuarial gains and losses immediately in either other comprehensive income in the comparative IFRS statements of comprehensive income or selling, general and administrative expenses in the comparative IFRS Statements of earnings.

The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings and Statements of other comprehensive income:

Statements of financial position impact	March 31, 2011 ($000's)	April 1, 2010 ($000's)
Non-pension employee benefits	13,466	12,444
Retained earnings	(11,765)	(12,444)
Accumulated other comprehensive income	(1,701)	

Statements of earnings impact	March 31, 2011 ($000's)
Selling, general and administrative expenses	(679)
Net earnings impact	**679**

Statements of comprehensive income impact	March 31, 2011 ($000's)
Actuarial losses adjusted through earnings	679
Actuarial losses recognized through other comprehensive income	(1,701)
Decrease in comprehensive income	**(1,022)**

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2. Short-term employee benefits

Under Canadian GAAP, the Board recognized certain short-term employee benefits in the period these benefits were deemed to be a present legal obligation. Upon adoption of IFRS, the Board has adopted a policy to recognize these short-term employee benefits in the period the employee has rendered service in exchange for those benefits and those benefits are either deemed to be legal or constructive obligations.

As a result, all previously unrecognized short-term employee benefits as at April 1, 2010 have been recognized in retained earnings in the opening IFRS balance sheet. As well, the impact of changing the accounting policy, for the financial year-ended March 31, 2011 has been adjusted to reflect its policy under IFRS.

The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings:

Statements of financial position impact	March 31, 2011 ($000's)	April 1, 2010 ($000's)
Provisions	7,339	7,131
Retained earnings	(7,339)	(7,131)

Statements of earnings impact	March 31, 2011 ($000's)
Selling, general and administrative expenses	209
Net earnings impact	**(209)**

3. Non-pension employee benefits

IFRS requires that obligations for short-term or long-term compensated accumulated absences be recorded as an obligation as service is rendered by the employee. Canadian GAAP only addressed long-term accumulated absences that vest or are paid out on termination. Upon adoption of IFRS, the Board adopted an accounting policy to recognize an obligation for LTIP benefits once an employee is no longer providing active service.

As a result, all previously unrecognized benefits as at April 1, 2010 have been recognized in retained earnings in the opening IFRS balance sheet. As well, the impact of changing the accounting policy, for the financial year-ended March 31, 2011 has been adjusted to reflect its policy under IFRS.

The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings:

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Statements of financial position impact	**March 31, 2011 ($000's)**	**April 1, 2010 ($000's)**
Non-pension employee benefits	13,875	11,406
Retained earnings	(13,875)	(11,406)

Statements of earnings impact	**March 31, 2011 ($000's)**
Selling, general and administrative expenses	2,470
Net earnings impact	**(2,470)**

4. Property, plant & equipment

Under previous Canadian GAAP, the Board recognized certain tangible items ("items") as part of property, plant and equipment as required under Canadian GAAP. Upon adoption of IFRS, the Board has adopted a policy to no longer recognize these items within property, plant and equipment but rather charge these items to operating expenses in the Statement of earnings, in accordance with "*IAS 16 – Property, plant and equipment*".

As a result, all previously recognized items included in property, plant and equipment as at April 1, 2010 have been recognized in retained earnings in the opening IFRS balance sheet. As well, the impact of changing the accounting policy, for the financial year-ended March 31, 2011 has been adjusted to reflect its policy under IFRS.

The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings:

Statements of financial position impact	**March 31, 2011 ($000's)**	**April 1, 2010 ($000's)**
Property, plant and equipment & intangible assets	(1,691)	(1,423)
Retained earnings	(1,691)	(1,423)

Statements of earnings impact	**March 31, 2011 ($000's)**
Selling, general and administrative expenses	291
Other income	23
Net earnings impact	**268**

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5. Provisions

IFRS requires constructive obligations to be recognized as liabilities. Upon adoption of IFRS, the Board has adopted a policy to recognize these liabilities.

As a result, all previously unrecognized provisions as at April 1, 2010 have been recognized in retained earnings in the opening IFRS balance sheet. As well, the impact of changing the accounting policy, for the financial year-ended March 31, 2011 has been adjusted to reflect its policy under IFRS.

The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings:

Statements of financial position impact	**March 31, 2011 ($000's)**	**April 1, 2010 ($000's)**
Provisions	361	302
Retained earnings	(361)	(302)

Statements of earnings impact	**March 31, 2011 ($000's)**
Revenue	(25)
Selling, general and administrative expenses	32
Net earnings impact	**(57)**

6. The Beer Store

Under previous Canadian GAAP, the Board recognized gross TBS program container deposits collected and paid within revenue and cost of sales, respectively. Upon transition to IFRS, the Board adopted a policy to offset TBS program deposits collected and paid. Thereby, certain comparative amounts for revenue, cost of sales and inventories have been reclassified with no significant impact on net income.

As a result, TBS program deposits as at April 1, 2010, have been reclassified from inventories to trade and other receivables. As well, the impact of changing the accounting policy, for the financial year-ended March 31, 2011 has been adjusted to reflect its policy under IFRS.

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The following are the impacts of these IFRS changes to the Statements of financial position, Statements of earnings:

Statements of financial position impact	**March 31, 2011 ($000's)**	**April 1, 2010 ($000's)**
Trade and other receivables	2,219	2,100
Inventories	(2,219)	(2,100)

Statements of earnings impact	**March 31, 2011 ($000's)**
Revenue	(49,604)
Cost of sales	(49,807)
Other income	(203)
Net earnings impact	-

7. IFRS reclassification

The following reclassifications have been made to the Statements of financial position:

i. The current portion of “non-pension employee benefits” was reclassified to current liabilities under IFRS.

ii. “Provisions” recorded in “Trade and other payables” under Canadian GAAP were separately reclassified to “Provisions” under IFRS.

The following reclassifications have been made to the Statements of earnings:

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iii. Unredeemed Gift card income offset against "Retail stores and marketing" under Canadian GAAP were reclassified to "Revenues" under IFRS.

iv. Unredeemed container deposits offset against "Administration" under Canadian GAAP were reclassified to "Other income, net of costs" under IFRS.

v. Vendor allowances offset against "Retail stores and marketing" under Canadian GAAP were reclassified to "Cost of sales" under IFRS.

vi. Direct warehouse handling and outbound freight included in "Warehousing and distribution" under Canadian GAAP were reclassified to "Cost of sales" under IFRS.

vii. Other income included in "Sales and other income" under Canadian GAAP were reclassified to "Other income, net of costs" and "Finance income" under IFRS.

viii. "Retail stores and marketing", "Warehousing and distribution", "Administration" and "Amortization" expenses under Canadian GAAP were reclassified to "Selling general and administrative expenses" under IFRS.

ix. Interest expense related to non-pension employee benefits included in "Administration" under Canadian GAAP were reclassified to "Finance costs" under IFRS.

x. Air Miles were segregated between base miles and bonus miles. The base miles were reclassified as a reduction from Revenue and the net income from bonus miles was reclassified to "Cost of sales" under IFRS.

26. Other Matters

The Minister of Finance announced in February 2012 that the LCBO's Head Office facility located in downtown Toronto is to be sold. The sale will be conducted as a multi-year phased project involving the Offices and adjoining lands, the attached warehouse facility as well as the adjacent retail store. The planning for the various phases is underway with the first phase expected to be completed no earlier than December 2013.

MANAGEMENT'S RESPONSIBILITY FOR ANNUAL REPORTING

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. Where required, management has made informed judgements and estimates in accordance with International Financial Reporting Standards.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications, on an ongoing basis. The reports prepared by the internal auditors are reviewed by the Committee. The VP, Audit Services, responsible for Internal Audit, reports directly to the Audit and Risk Management Committee.

KPMG LLP, the independent auditor appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, has examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditor has full and unrestricted access to the Committee.

Rod Phillips
President and Chief Executive Officer

Preet Dhindsa
Executive Vice President,
Chief Administrative Officer
& Chief Financial Officer

June 28, 2012

KPMG LLP
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AUDITORS' REPORT

To the Board of Directors of the Ontario Lottery and Gaming Corporation and to the Minister of Finance of Ontario

We have audited the accompanying consolidated financial statements of Ontario Lottery and Gaming Corporation, which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended March 31, 2012 and March 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ontario Lottery and Gaming Corporation as at March 31, 2012, March 31, 2011 and April 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
June 28, 2012
Toronto, Canada

Ontario Lottery and Gaming Corporation

Consolidated Statements of Financial Position

As at March 31, 2012, March 31, 2011 and April 1, 2010
(in thousands of dollars)

	Notes	March 31, 2012	March 31, 2011 (Note 30)	April 1, 2010 (Note 30)
Assets				
Current assets				
Cash and cash equivalents	6	$ 359,893	$ 314,572	$ 324,640
Trade and other receivables	7	66,671	69,034	78,239
Prepaid expenses		34,111	29,529	32,478
Inventories	8	26,677	18,354	29,695
Current portion of loans receivable	9	3,584	5,685	6,121
Cash and short-term investments held for First Nations	10	-	8,673	191,696
Total current assets		490,936	445,847	662,869
Non-current assets				
Restricted cash	11	198,072	188,388	199,103
Loans receivable	9	16,595	20,033	25,858
Property, plant and equipment	12	1,584,524	1,662,244	2,269,552
Goodwill		1,776	1,776	1,776
Total non-current assets		1,800,967	1,872,441	2,496,289
Total assets		**$ 2,291,903**	**$ 2,318,288**	**$ 3,159,158**
Liabilities and Equity				
Current liabilities				
Trade and other payables	13	$ 300,980	$ 295,985	$ 304,057
Provisions	14	54,769	8,040	8,115
Due to operators	18	38,110	32,219	37,544
Due to Rama First Nation	19	1,593	1,422	1,577
Due to the Government of Canada	21	15,117	16,054	7,421
Deferred revenues		12,423	25,831	15,807
Due to First Nations	10	-	8,673	191,696
Current portion of long-term debt	23	58,449	55,885	49,313
Total current liabilities		481,441	444,109	615,530
Non-current liabilities				
Long-term debt	23	117,293	139,705	186,077
Employee benefits	25	21,567	21,252	18,694
Total non-current liabilities		138,860	160,957	204,771
Total liabilities		**620,301**	**605,066**	**820,301**
Equity				
Retained earnings		1,483,174	1,521,872	2,146,887
Contributed surplus		62,345	62,345	62,345
Reserves	11	126,083	129,005	129,625
Total equity		1,671,602	1,713,222	2,338,857
Total liabilities and equity		**$ 2,291,903**	**$ 2,318,288**	**$ 3,159,158**

Related party transactions (Note 17)
Commitments (Note 26)
Contingencies (Note 27)
Subsequent events (Note 26 and 29)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board

Thomas O'Brie

Paul Godfrey, Chair

Thomas O'Brien, Director

Ontario Lottery and Gaming Corporation

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2012 and 2011

(in thousands of dollars)

	Notes	March 31, 2012	March 31, 2011 (Note 30)
Revenues			
Lottery and bingo	28	$ 3,286,892	$ 3,320,994
Resort casinos	28	1,303,912	1,302,988
OLG slots and casinos	28	2,125,888	2,067,664
		6,716,692	**6,691,646**
Expenses			
Lottery and bingo	28	2,428,469	2,407,689
Resort casinos	28	1,400,895	1,431,919
OLG slots and casinos	28	1,240,164	1,155,227
		5,069,528	**4,994,835**
Income before the undernoted		**1,647,164**	**1,696,811**
Other income		32,848	29,160
Finance income	16	3,789	3,023
Finance costs	16	(7,781)	(11,520)
Foreign exchange gain	24.e	8,307	8,435
Other charges	22	(62,274)	(498,408)
Net income and comprehensive income		**$ 1,622,053**	**$ 1,227,501**

Segmented information (Note 28)

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation

Consolidated Statements of Changes in Equity

For the years ended March 31, 2012 and 2011
(in thousands of dollars)

	Retained earnings	Contributed surplus	Capital renewals reserves	Operating reserves	Severence reserves	Total
Balance at April 1, 2010	**$ 2,146,887**	**$ 62,345**	**$ 29,728**	**$ 58,466**	**$ 41,431**	**$ 2,338,857**
Net income and comprehensive income	1,227,501	-	-	-	-	1,227,501
Contributions or distributions						
Transfers from reserves	620	-	(2,761)	(222)	2,363	-
Distributions to First Nations on behalf of the Province of Ontario	(59,079)	-	-	-	-	(59,079)
Payments to the Province of Ontario	(1,794,057)	-	-	-	-	(1,794,057)
Balance at March 31, 2011	**$ 1,521,872**	**$ 62,345**	**$ 26,967**	**$ 58,244**	**$ 43,794**	**$ 1,713,222**
Net income and comprehensive income	1,622,053	-	-	-	-	1,622,053
Contributions or distributions						
Transfers from reserves	2,922	-	(4,983)	(415)	2,476	-
Other contributions	2,704	-	-	-	-	2,704
Payments to the Province of Ontario	(1,666,377)	-	-	-	-	(1,666,377)
Balance at March 31, 2012	**$ 1,483,174**	**$ 62,345**	**$ 21,984**	**$ 57,829**	**$ 46,270**	**$ 1,671,602**

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation

Consolidated Statements of Cash Flows

For the years ended March 31, 2012 and 2011

(in thousands of dollars)

	March 31, 2012	March 31, 2011
Cash flows from operating activities		
Net income and comprehensive income	$ 1,622,053	$ 1,227,501
Adjustments to reconcile profit for the period to net cash from operating activities:		
Amortization	207,109	251,120
Loss on disposal of property, plant and equipment	16,464	7,083
Net finance costs	3,992	8,497
Impairment loss on property, plant and equipment	-	498,408
Operating cash flows before change in non-cash working capital	1,849,618	1,992,609
Change in non-cash working capital items:		
Decrease in trade and other receivables	2,363	9,205
(Increase) decrease in prepaid expenses	(4,582)	2,949
(Increase) decrease in inventories	(8,323)	11,341
Increase (decrease) in trade and other payables	4,995	(8,072)
Increase (decrease) in provisions	46,729	(75)
Increase (decrease) in due to operators	5,891	(5,325)
Increase (decrease) in due to Rama First Nation	171	(155)
(Decrease) increase in due to the Government of Canada	(937)	8,633
(Decrease) increase in deferred revenues	(13,408)	10,024
Increase in employee benefits liability	315	2,558
Net cash from operating activities	1,882,832	2,023,692
Cash flows used in investing activities		
Interest received	3,789	3,023
Issuance of loans receivable	(323)	(477)
Proceeds received on loans receivable	5,862	6,738
Capital expenditures	(150,287)	(153,225)
Proceeds on disposal of property, plant and equipment	4,434	3,922
(Increase) decrease in restricted cash	(9,684)	10,715
Net cash used in investing activities	(146,209)	(129,304)
Cash flows used in financing activities		
Interest paid	(7,781)	(11,520)
Increase in long-term debt	36,343	9,513
Repayments of long-term debt	(56,191)	(49,313)
Payments to the Province of Ontario	(1,666,377)	(1,794,057)
Distributions to First Nations on behalf of the Province of Ontario	-	(59,079)
Other contributions	2,704	-
Net cash used in financing activities	(1,691,302)	(1,904,456)
Increase (decrease) in cash and cash equivalents	45,321	(10,068)
Cash and cash equivalents, beginning of year	314,572	324,640
Cash and cash equivalents, end of year	**$ 359,893**	**$ 314,572**

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

1. Reporting entity

The Ontario Lottery and Gaming Corporation ("OLG" or "the Corporation") was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999.* The Corporation is a Crown agency of the Ontario government and is responsible for conducting and managing lottery games, five Casinos and the Great Blue Heron Slot Machine Facility, seventeen slot operations at racetracks and four Resort Casinos (Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (Fallsview)) in the Province of Ontario.

The Corporation has entered into operating agreements with Windsor Casino Limited, CHC Casinos Canada Limited, Falls Management Group, L.P. and Great Blue Heron Gaming Company for the operation of Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (Fallsview) and the Great Blue Heron Slot Machine Facility, respectively.

The Corporation's head office and corporate office, respectively, are located at:

- 70 Foster Drive, Suite 800, Sault Ste. Marie, Ontario, P6A 6V2
- 4120 Yonge Street, Suite 500, Toronto, Ontario, M2P 2B8

These consolidated financial statements were authorized for issue by the Board of Directors of the Corporation on June 28, 2012.

2. Modernizing Lottery and Gaming in Ontario

On March 12, 2012, Finance Minister Dwight Duncan accepted a report from OLG entitled *Modernizing Lottery and Gaming in Ontario: Strategic Business Revenue / Advice to Government.* This report was the culmination of a comprehensive strategic business review that examined the efficiency of the Corporation's current operations. The final report included three recommendations for how the Corporation could achieve greater sustainability, more Net Profit to the Province and increased economic and social benefits within Ontario communities:

1) Become more customer-focused;
2) Expand regulated private sector delivery of lottery and gaming; and
3) Renew OLG's role in oversight of lottery and gaming.

The government has given the Corporation approval to move forward with all three of these recommendations. Over the next six years, the Corporation will begin implementing a series of initiatives that will support the modernization of its operations. These initiatives include:

- The launch of a new Internet Gaming business line;
- The revitalization of Charitable Gaming through the introduction of new electronic gaming at bingo halls;
- The introduction of a new, streamlined Customer Management system and business-wide Gaming Management system; and
- The leveraging of private sector expertise in the day-to-day operation of both the lottery network and gaming sites.

As part of the Modernizing Lottery and Gaming in Ontario ("Modernization Plan"), on March 14, 2012, the Corporation announced the closure of three Slots at Racetracks facilities (OLG Slots at Windsor Raceway, OLG Slots at Hiawatha Horse Park and OLG Slots at Fort Erie Race Track) effective April 30, 2012 (see Note 22). These closures followed an announcement by the Province of Ontario that the Slots at Racetracks program would end in March 2013.

The Corporation is currently developing a detailed strategy for executing its modernization initiatives.

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

3. Basis of preparation

a. Statement of compliance

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS. The Corporation has applied April 1, 2010 as the date of transition to IFRS (the "Transition Date"). IFRS 1, First-time Adoption of International Financial Reporting Standards (IFRS 1), has been applied and the Corporation's accounting policies are in accordance with IFRS. These accounting policies are disclosed in Note 4 to these consolidated financial statements.

An explanation of how the transition to IFRS has affected the consolidated financial statements is included in Note 30.

b. Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments classified as financial assets through profit and loss that are measured at fair value (Note 4).

c. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars. The Canadian dollar is the Corporation's functional currency, the currency of the primary economic environment in which the Corporation operates. All financial information is presented in Canadian dollars.

d. Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements is included in the following notes:

- Asset useful lives and residual values (Note 4.l)
- Lease classification (Note 4.o)
- Impairment analysis for recoverability of non-financial assets (Note 12)
- Provisions (Note 14)
- Amounts due to the Government of Canada (Note 21)
- Valuation of financial instruments (Note 24)
- Employee benefits (Note 25)
- Contingencies (Note 27)

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies

The following accounting policies have been applied consistently by the Corporation and its wholly owned subsidiary to the consolidated financial statements as at and for the years ended March 31, 2012 and March 31, 2011 presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at April 1, 2010 for the purposes of the transition to IFRS.

a. Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary which it controls. Control is achieved where the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. These consolidated financial statements include the financial positions and results of operations of Caesars Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (collectively, "Resort Casinos").

The assets, liabilities and operations of the Great Blue Heron Slot Machine Facility are also included in these consolidated financial statements. The operating results are included with the results of the OLG Slots and Casinos. These consolidated financial statements do not include other operations carried out at the Great Blue Heron Charity Casino, which OLG does not own and maintains no authority.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated on consolidation.

The accounting policies of the consolidated group are aligned with the accounting policies of the Corporation.

b. Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the Corporation's functional currency, Canadian dollars, at the exchange rates at that date. Non-monetary assets and liabilities in foreign currencies measured in terms of historical cost are translated at historical exchange rates at the date of the transaction. Transactions in foreign currencies are translated into the Corporation's functional currency using the exchange rates at the date of the transactions. The consolidated statement of comprehensive income items are translated at the rate of exchange in effect at the transaction date. Foreign currency transaction gains and losses are recognized in the consolidated statement of comprehensive income in the period in which they arise. The Corporation does not have any foreign operations.

c. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized for the following major business activities:

Lottery and bingo games are sold to the public by contracted lottery retailers and bingo service providers. Revenue from tickets sold to consumers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs. Revenue from instant games is recognized when retailers make them available for sale to the public, as indicated by the retailer's activation of tickets. Revenue from sports wagering games and bingo gaming is recognized when the ticket, paper or electronic game is sold to the consumer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

c. Revenue recognition (continued)

Gaming revenue from slot and table game operations is recorded in the consolidated statement of comprehensive income, net of prizes paid, in the same period the game is played. Gaming revenue is net of accruals for the anticipated payouts of progressive jackpots and liabilities under the customer loyalty incentive program.

Non-gaming revenue includes revenue from accommodations, food and beverage, entertainment centre and other services excluding the retail value of accommodations, food and beverage and other goods and services provided to patrons on a complimentary basis.

d. Customer loyalty incentive programs

The Corporation has customer loyalty incentive programs whereby patrons have the choice to receive free or discounted goods and services, and in many cases the right to receive cash. These customer loyalty incentive programs at the Resort Casinos and OLG Slots and Casinos allow customers to earn points based on the volume of play during gaming transactions. These points are recorded as a separate deliverable in the revenue transaction.

If the customer has the right to receive free or discounted goods and services and/or the option of receiving cash, a financial liability is recognized when the points are granted and a corresponding amount equal to the cash value is recorded as a reduction to revenue. The patron's point balance will be forfeited if the patron does not earn additional points over the subsequent six- to 12-month period. If the points expire or are forfeited, the financial liability is derecognized.

For programs that provide customers the right to receive free or discounted goods and services, the revenue as determined by the fair value of the undelivered goods and services related to the customer loyalty award is deferred until the award is provided or expires.

e. Lottery and bingo prizes

Prize expense for lottery and bingo games is recognized based on the predetermined prize structure for each game in the period revenue is recognized as described below:

- Prize expense for tickets sold to consumers for lottery games, for which results are determined based on a draw, is recognized when the related draw occurs based on actual prize liability.
- Prize expense for instant games is recognized when retailers make them available for sale to the public, as indicated by the retailer's activation of tickets based on prize structure.
- Prize expense for sports wagering games is recognized when the last wagered event occurs based on actual prize liability.
- Prize expense for bingo gaming is recognized when the bingo paper or electronic game is sold to the consumer based on actual prize liability.
- Prize expense for annuity-based top prizes is based on the cost of the annuity purchased by the Corporation from a third party.

Prize expense is adjusted on a monthly basis to reflect amounts actually won and/or unclaimed.

Unclaimed prizes on national games are returned to players through guaranteed jackpots and bonus draws. Unclaimed prizes on regional games are returned to the Province of Ontario through distributions to the Province. Unclaimed prizes are recorded as a reduction to the prize liability included in trade and other payables as well as a reduction to the prize expense. National games are administered by the Interprovincial Lottery Corporation and sold throughout Canada, while regional games are administered by the Corporation and sold only in Ontario.

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

f. Commissions and bonuses

Lottery retailers receive a commission of eight per cent on all instant tickets and a commission of five per cent on all online tickets sold. Where a commission has been paid to retailers for ticket sales relating to future draws, the commission amount is recorded as a prepaid expense until the related revenue is recognized. Lottery retailers also receive a three per cent commission on instant ticket redemptions and a commission of two per cent on online ticket redemptions. A $1,000 bonus is paid to any retailer who sells a major prize-winning online ticket, excluding sports and daily games. Commission amounts that are paid to a retailer for selling a major prize are recorded as an expense when the ticket is redeemed.

Bingo service providers receive a commission based on either a percentage of total gaming revenue, plus or minus incentive adjustments for achieving sales, prize payout and cost of goods sold targets or a percentage of total gaming revenue less total prize payout. Municipalities that host the Corporation's bingo halls receive a commission based on either a percentage of total revenue or a percentage of total revenue less total prize payout.

Racetrack site holders and the horse racing industry are each entitled to receive a predetermined percentage of revenue from slots, or other amounts as agreed to, as outlined in the site holder agreement with the corresponding racetrack operator. Municipalities that host an OLG Casino or Slots at Racetracks facility receive five per cent of revenue from slots up to 450 slot machines and two per cent of revenue from slot machines over 450. As the host community of the slot machines at Great Blue Heron Charity Casino, the Mississaugas of Scugog Island First Nation receives five per cent of the revenue from the slot machines.

Commissions and bonuses are recognized in the consolidated statement of comprehensive income in the period in which they are incurred.

g. Cash and cash equivalents

Cash and cash equivalents include cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days.

h. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost, less an allowance for doubtful accounts. Trade and other receivables are due for settlement no more than 30 days from the date of recognition.

Trade and other receivables represent lottery proceeds due from lottery retailers for lottery ticket sales net of commissions and prizes paid by the retailers. Also included are bingo proceeds due from bingo service providers for bingo sales net of commissions and prizes paid and amounts due from patrons of Resort Casinos.

Collectibility of trade receivables is reviewed on an ongoing basis. Accounts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, not including future credit losses, discounted at the original effective interest rate. The amount of the provision is recognized in the consolidated statement of comprehensive income.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements
Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

i. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to complete the sale.

Inventories consist of finished goods including slot machine and table game parts, security and surveillance parts, lottery and bingo tickets and paper, food and beverage inventory and retail inventory.

j. Financial instruments

(i) Non-derivative financial assets

The Corporation has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables. The Corporation did not have available-for-sale or held-to-maturity financial assets.

The Corporation initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss.

The Corporation classified all cash and cash equivalents, restricted cash and cash and short-term investments held for First Nations as financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of trade and other receivables and loans receivable.

4. Significant accounting policies (continued)

j. Financial instruments (continued)

(ii) Non-derivative financial liabilities

The Corporation has the following non-derivative financial liabilities: trade and other payables, due to operators, due to Rama First Nation, due to the Government of Canada, due to First Nations and long-term debt.

The Corporation initially recognizes financial liabilities issued on the date that they originated. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

All other financial liabilities (designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Any transaction costs that are directly attributable to these financial liabilities are expensed as incurred.

The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or have expired.

The Corporation has no non-derivative liabilities classified as at fair value through profit or loss.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

k. Restricted cash

Restricted cash consists of cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days. Cash is restricted for the purposes of funding reserves and also includes prize funds on deposit and unused proceeds received from term loans.

l. Property, plant and equipment

(i) Recognition and measurement

The Corporation capitalizes any major capital purchase that has a useful life beyond the current year.

Property, plant and equipment is measured at cost less accumulated amortization and accumulated impairment losses.

Cost includes an expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, and other costs directly attributable to bring the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs on qualifying assets. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within other income in profit or loss.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

4. Significant accounting policies (continued)

l. Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are amortized over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

Asset	Rate
Buildings	10 to 50 years
Furniture, fixtures and equipment	2 to 10 years
Leasehold improvements	Lesser of useful life or term of lease
Lottery gaming assets	5 to 10 years
Casino and racetrack slot operations gaming assets	2 to 10 years
Energy centre assets	15 to 40 years

Property, plant and equipment are amortized when ready for their intended use. Construction in progress and assets not in use are stated at cost, less any recognized impairment loss. Amortization of these assets, determined on the same basis as other property assets, commences when the assets are ready for their intended use.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Borrowing costs incurred during the construction and development of qualifying property, plant and equipment are capitalized and amortized over the estimated useful life of the associated property, plant and equipment.

m. Goodwill

Acquisition of subsidiaries and businesses is accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the exchange date) of assets given and liabilities incurred or assumed. Acquisition-related costs are recognized in the consolidated statement of comprehensive income as incurred.

4. Significant accounting policies (continued)

m. Goodwill (continued)

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the "acquisition date"). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Corporation's cash-generating units ("CGU") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. Absent of any triggering factors during the year, the Corporation conducts its goodwill impairment test in the fourth quarter of the year. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Goodwill is measured at cost less accumulated impairment losses and has an indefinite useful life.

n. Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The Corporation considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time.

4. Significant accounting policies (continued)

n. Impairment (continued)

(ii) Non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Corporation's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit or group of units on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

o. Leased assets

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the Corporation's statement of financial position. Operating leases payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

p. Deferred revenues

Funds collected from retailers for lottery games for which results are determined based on a draw, sold in advance of the game draw, are recorded as deferred revenue and recognized as revenue once the related draw occurs.

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

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4. Significant accounting policies (continued)

q. Cash and short-term investments held for First Nations

Cash and short-term investments held for First Nations include cash and liquid investments that have a term to maturity at the time of purchase of less than 90 days.

r. Trade and other payables

These amounts represent liabilities for goods and services provided to the Corporation prior to the end of the financial year which are unpaid. Such liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at their amortized cost using the effective interest method. The amounts are short-term in nature.

s. Provisions

Provisions are liabilities of uncertain timing and amount. A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

(i) Legal claims

The Corporation recognizes obligations for the settlement of current legal claims against the Corporation. The provision is measured based on the best estimate of the expenditure required to settle the matter. Each claim is individually reviewed for likelihood of settlement and expected settlement amount.

(ii) Restructuring provisions

A provision for restructuring is recognized when the Corporation has a legal or constructive obligation at the reporting date, which results from a detailed and formal restructuring plan approved by the Corporation, and the restructuring either has commenced or has been announced to those affected by it. Restructuring costs include only the direct incremental expenditures arising from the restructuring, which are those that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Corporation.

(iii) Other provisions

The Corporation recognizes decommissioning obligations for the retirement of certain tangible property, plant and equipment that result from the acquisition, construction, development and/or normal use of the assets. The provision is measured based on the net present value of Management's best estimate of the expenditures that will be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the estimated useful life. The increase to the provision resulting from unwinding the discount is recognized as finance costs.

The provision is measured each period and subsequent changes in the provision are capitalized as part of the cost of the item and amortized prospectively over the remaining life of the item to which the costs relate. A gain or loss may be incurred upon settlement of the liability.

4. Significant accounting policies (continued)

s. Provisions (continued)

(iii) Other provisions (continued)

The Corporation recognizes a provision when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. The provision is initially measured based on the net present value of Management's best estimate of the net obligations under the contract. Subsequent changes in the measurement amount are charged to the class of expense to which the contract relates.

t. Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan that requires entities to record their net obligation in respect of the plan and is not a defined contribution plan. The Corporation provides defined benefit pension plans through the Public Service Pension Fund ("PSPF") and the Ontario Public Service Employees Union Pension Fund ("OPSEU Pension Fund"). The Corporation does not have a net obligation in respect of defined benefit pension plans as the plans are sole-sponsored defined benefit plans established by the Province of Ontario. The Province controls all entities included in the pension plans. The Corporation has classified these plans as state plans whereby there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation records these post-employment benefits as defined contribution plans and has recorded no additional liability for the plan deficit.

(iii) Other long-term employee benefits

The Corporation's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Corporation's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

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4. Significant accounting policies (continued)

t. Employee benefits (continued)

(iv) Termination benefits

Termination benefits are recognized as an expense when the Corporation is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Corporation has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

(v) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

u. Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(i) Determining whether an arrangement contains a lease

At the inception of an arrangement, the Corporation determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Corporation the right to control the use of the underlying asset.

At the inception or upon the reassessment of the arrangement, the Corporation separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Corporation concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Corporation's incremental borrowing rate.

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

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4. Significant accounting policies (continued)

v. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. The Corporation ceases to capitalize borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete and suspends capitalization of borrowing costs during extended periods in which the Corporation suspends active development of a qualifying asset.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the consolidated statement of comprehensive income in the period in which they are incurred.

w. Finance income and finance costs

Finance income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

x. Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segments' operating results are reviewed regularly by the Corporation's Executive Leadership Team ("ELT"), consisting of the President and CEO and his direct reports, to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results that are reported to the chief operating decision-maker, the Corporation's ELT, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

y. Income taxes

As the Corporation is an agent of the Crown, it is not subject to federal or provincial corporate income taxes or corporate capital taxes.

z. Accounting standards issued but not yet effective

A number of new standards, and amendments to standards and interpretations, are not yet effective as at March 31, 2012, and have not been applied in preparing these consolidated financial statements.

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Notes to the Consolidated Financial Statements
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4. Significant accounting policies (continued)

z. Accounting standards issued but not yet effective (continued)

(i) IAS 1, Presentation of Financial Statements ("IAS 1")

In June 2011, the International Accounting Standards Board ("IASB") amended IAS 1. This amendment requires an entity to separately present the items of other comprehensive income as items that may or may not be reclassified to profit and loss. This amended standard is effective for annual periods beginning on or after July 1, 2012. The Corporation is assessing the impact of this amended standard on its consolidated financial statements.

(ii) IAS 32 and IFRS 7, Offsetting Financial Assets and Liabilities

In December 2011, the IASB published amendments to IAS 32, Financial Instruments – Presentation ("IAS 32") and issued new disclosure requirements in IFRS 7, Financial Instruments – Disclosures ("IFRS 7"). The amendments to IAS 32 provide clarification on when an entity has a legally enforceable right to offset and clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statements of financial position or subject to master netting or similar arrangements. The amendments to IAS 32 are effective for annual reporting periods beginning on or after January 1, 2014. The amendments to IFRS 7 are effective for is annual reporting periods beginning on or after January 1, 2013. The Corporation is assessing the impact of this amended standard on its consolidated financial statements.

(iii) IFRS 13, Fair Value Measurement ("IFRS 13")

In May 2011, the IASB issued IFRS 13, which replaces the fair value guidance contained in individual IFRS with a single source of fair value measurement guidance. The standard also requires disclosures which enable users to assess the methods and inputs used to develop fair value measurements. This new standard is effective for annual reporting periods beginning on or after January 1, 2013. The Corporation is assessing the impact of this new standard on its consolidated financial statements.

(iv) IAS 19, Employee Benefits ("IAS 19")

In June 2011, the IASB amended IAS 19. This amendment eliminated the use of the "corridor" approach and mandates all remeasurement impacts be recognized in other comprehensive income. This amendment also clarifies when an entity should recognize a liability and an expense for termination benefits. This amended standard is effective for annual reporting periods beginning on or after January 1, 2013. The Corporation is assessing the impact of this amended standard on its consolidated financial statements.

(v) IFRS 9, Financial Instruments ("IFRS 9")

In November 2009, the IASB issued IFRS 9 and in October 2010, the IASB published amendments to IFRS 9. IFRS 9, which replaces IAS 39, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. In December 2011, the IASB issued an amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. The Corporation is assessing the impact of this new standard on its consolidated financial statements.

Ontario Lottery and Gaming Corporation

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5. Capital risk management

The capital structure of the Corporation consists of cash and cash equivalents, long-term debt and equity, comprising retained earnings, contributed surplus and reserves.

The Corporation's objectives in managing capital are to ensure sufficient resources are available for it to continue to fund future development and growth of its operations and to provide returns to the Province of Ontario.

The Board of Directors is responsible for the oversight of Management including its policies related to financial and risk management issues. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The operating agreements require the Resort Casinos to establish reserve funds. The Corporation is not subject to any externally imposed capital requirements. Refer to Note 24 for further details on the Corporation's financial risk management and financial instruments.

6. Cash and cash equivalents

	March 31, 2012	March 31, 2011	April 1, 2010
Cash balances	$359,893	$314,572	$323,240
Cash equivalents	-	-	1,400
Cash and cash equivalents	$359,893	$314,572	$324,640

As at March 31, 2012, cash and cash equivalents include bank term deposits amounting to $nil (March 31, 2011 - $nil, April 1, 2010 - $1,400,000) at an interest rate of nil per cent (March 31, 2011 - nil per cent, April 1, 2010 - 0.1 per cent).

The Corporation's exposure to interest rate risk and a sensitivity analysis with respect to foreign currency risk for financial assets and liabilities is disclosed in Note 24.

7. Trade and other receivables

	March 31, 2012	March 31, 2011	April 1, 2010
Trade receivables	$60,466	$63,669	$72,603
Less: allowance for doubtful accounts	(7,463)	(7,094)	(6,785)
Trade receivables, net	53,003	56,575	65,818
Other	13,668	12,459	12,421
Trade and other receivables	$66,671	$69,034	$78,239

The Corporation's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 24.

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8. Inventories

	March 31, 2012	March 31, 2011	April 1, 2010
Slot machine and table game parts	$4,961	$5,199	$4,833
Lottery tickets and paper	14,080	5,307	16,870
Security and surveillance parts	994	1,206	1,487
Food and beverage	3,133	3,153	3,274
Retail	384	434	631
Other	3,125	3,055	2,600
	$26,677	$18,354	$29,695

Inventories are valued at the lower of cost and net realizable value. Inventory costs, included in expenses, for the year ended March 31, 2012 were $96,504,000 (March 31, 2011 - $98,208,000). During the year ended March 31, 2012, the Corporation recorded inventory write-downs in expenses of $690,000 (March 31, 2011 - $218,000).

9. Loans receivable

	March 31, 2012	March 31, 2011	April 1, 2010
Loans receivable	$20,179	$25,718	$31,979
Less: current portion of loans receivable	(3,584)	(5,685)	(6,121)
Long-term portion of loans receivable	$16,595	$20,033	$25,858

The Corporation has loaned funds to certain racetrack site holders for the purposes of renovating or constructing buildings to accommodate the Corporation's slot machine facilities. Security is provided by mortgages and general security agreements covering the racetrack site holders' assets. The loans bear interest based on the Royal Bank of Canada's prime rate and are repayable over periods ranging from one to fifteen years. The amounts will be repaid under an agreed upon formula by withholding from commissions that would otherwise be payable to the racetrack site holders.

During fiscal 2012, additional funds were advanced to a site holder for development and expansion of its property in the amount of $323,000 (March 31, 2011 - $477,000) and has been included in loans receivable. The Corporation's maximum remaining commitment for future advances as at March 31, 2012 is $1,500,000 (March 31, 2011 - $3,988,000, April 1, 2010 - $4,466,000).

10. Cash and short-term investments held for First Nations

	March 31, 2012	March 31, 2011	April 1, 2010
Segregated bank account	$ -	$ -	$175,441
Current distribution due to First Nations	-	8,673	16,255
	$ -	$8,673	$191,696

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10. Cash and short-term investments held for First Nations (continued)

On June 9, 2000, the Corporation, the Ontario First Nations Limited Partnership ("OFNLP"), the Mnjikaning First Nation Limited Partnership ("MFNLP") and the Province of Ontario entered into the Casino Rama Revenue Agreement, which entitled the OFNLP to the net revenues, as defined, from the operation of Casino Rama. Under the Casino Rama Revenue Agreement, the Corporation is required to distribute the net revenues from the operation on a monthly basis.

The Casino Rama Revenue Agreement required that, commencing July 31, 2001, the Corporation retain 35 per cent of the net distributions from Casino Rama (the "35% Share") in a segregated bank account if the Corporation had not received a joint direction from OFNLP and the Chippewas of Rama First Nation, also known as the Chippewas of Mnjikaning First Nation ("Rama First Nation") with respect to a new revenue distribution formula. This matter was the subject of an action brought by Rama First Nation against the Province of Ontario (the "35% Action"). Until the 35% Action was decided by the Courts or, alternatively, Rama First Nation and OFNLP reached an agreement on a new revenue distribution formula, the Corporation was required to retain these funds in the segregated bank account.

On July 8, 2010, the Supreme Court of Canada dismissed the 35% Action brought by Rama First Nation. Since the dismissal of the 35% Action, disputes have arisen between Rama First Nation and OFNLP concerning whether Rama First Nation is entitled to a formula share of the 35% Share (the "Formula Share") on the same basis as all other First Nations in the Ontario Region (the "Formula Share Claim Dispute"). In addition, the Chiefs of Ontario ("COO") and OFNLP provided the Corporation with a copy of a resolution passed on July 21, 2010 and directed that the entire 35% Share be distributed to OFNLP. Subsequently, the Corporation applied for a court order permitting the Corporation to interplead the Formula Share into court (the "Interpleader Application") pending the resolution of the Formula Share Claim Dispute.

On September 17, 2010, the undisputed portion of the 35% Share as agreed to by OFNLP and Rama First Nation, being $178,800,000, was released on consent of all interested parties to OFNLP, with OLG retaining the disputed portion. Between October 2010 and January 2011, on consent of the interested parties, OLG similarly released additional accumulated undisputed amounts to OFNLP, while retaining additional accumulated disputed amounts. On January 31, 2011, the total accumulated disputed Formula Share amount, being $5,432,000, was distributed from this account to OFNLP in connection with an agreement reached by the interested parties and the dismissal of the Interpleader Application, pending final disposition of the Formula Share Claim Dispute. OFNLP provided OLG with a direction to be held in escrow until the Formula Share Claim Dispute is finally resolved. This direction authorizes the payment by OLG of any award to Rama First Nation made in the Formula Share Claim Dispute arbitration directly (if Rama First Nation is ultimately successful in the Formula Share Claim Dispute) from future amounts that would be otherwise payable by OLG to OFNLP under the revenue sharing agreements (i.e. Casino Rama Revenue Agreement/Gaming Revenue Sharing and Financial Agreement).

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation and OFNLP, among others, entered into a Gaming Revenue Sharing and Financial Agreement (the "GRSFA").

On January 26, 2010, the Corporation and Rama First Nation announced that they had entered into an agreement dated July 17, 2009 relating to Casino Rama for the 20-year period commencing August 1, 2011 and relating to possible future development (the "Post-2011 Contract").

The key terms of the Post-2011 Contract and GRSFA are outlined in Note 19.b and 19.e, respectively.

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10. Cash and short-term investments held for First Nations (continued)

Pursuant to the terms of the GRSFA, OFNLP's entitlement to any share of the net revenues under the Casino Rama Revenue Agreement ceased as of April 1, 2011. Similarly, Rama First Nation's entitlement to any share of the net revenues under the Casino Rama Revenue Agreement ceased as of August 1, 2011 pursuant to the terms of the Post-2011 Contract.

11. Restricted cash and reserves

Included in restricted cash are the following amounts, which are held in separate bank accounts.

	March 31, 2012	March 31, 2011	April 1, 2010
Reserves (a)			
Capital renewals	$21,984	$26,967	$29,728
Operating	57,829	58,244	58,466
Severance	46,270	43,794	41,431
	126,083	129,005	129,625
Less unrestricted capital renewals and operating (b)	(426)	(6,860)	(5,013)
Funded reserves balance	125,657	122,145	124,612
Prize funds on deposit (c)	39,034	37,598	49,391
Unspent term loan proceeds (d)	33,381	28,645	25,100
	$198,072	$188,388	$199,103

a. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements, or other terms as otherwise agreed to, for the following purposes:

   (i) Capital renewals reserves – For property, plant and equipment additions other than normal repairs, and to satisfy specified obligations in the event that cash flows will be insufficient to meet such obligations;

   (ii) Operating reserves – To satisfy specified operating obligations in the event that cash flows will be insufficient to meet such obligations; and

   (iii) Severance reserves – To satisfy certain obligations of the Corporation arising from the termination or layoff of employees of an operator in connection with the termination of an operator.

b. The Corporation and the Operator of Caesars Windsor have agreed that both the operating and capital renewals reserves at Caesars Windsor, totalling $426,000 at March 31, 2012 (March 31, 2011 - $6,860,000, April 1, 2010 - $5,013,000), although contractually set aside for the above uses, are available to fund current operations, given the continuing negative cash flows at Caesars Windsor.

c. Prize funds on deposit are funds set aside representing the estimate of gross prizes outstanding of $67,783,000 (March 31, 2011 - $67,370,000, April 1, 2010 - $79,274,000) less an estimate for prizes not expected to be claimed by consumers of $28,749,000 (March 31, 2011 - $29,772,000, April 1, 2010 - $29,883,000).

d. Term loan proceeds represent restricted cash used for construction purposes at Caesars Windsor and for the renovation and expansion at Ajax Downs and Woodbine Racetrack.

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12. Property, plant and equipment

Cost

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	Casino and racetrack slot operations gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2010	$137,824	$1,847,668	$582,468	$624,150	$113,733	$642,186	$48,287	$106,504	$4,102,820
Additions and assets put into use	-	35,502	61,367	6,760	4,236	73,939	-	(28,579)	153,225
Disposals and retirements	-	(691)	(45,752)	(3,525)	(19,887)	(91,243)	-	-	(161,098)
Balance at March 31, 2011	$137,824	$1,882,479	$598,083	$627,385	$98,082	$624,882	$48,287	$77,925	$4,094,947
Balance at April 1, 2011	$137,824	$1,882,479	$598,083	$627,385	$98,082	$624,882	$48,287	$77,925	$4,094,947
Additions and assets put into use	-	20,984	55,577	16,289	804	79,105	-	(22,472)	150,287
Disposals and retirements	-	(9,998)	(61,876)	(40,141)	(14,755)	(85,905)	-	(5,724)	(218,399)
Balance at March 31, 2012	$137,824	$1,893,465	$591,784	$603,533	$84,131	$618,082	$48,287	$49,729	$4,026,835

Ontario Lottery and Gaming Corporation
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12. Property, plant and equipment (continued)

Accumulated amortization and accumulated impairment losses

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	Casino and racetrack slot operations gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2010	$ -	$438,201	$445,870	$426,659	$87,055	$434,561	$922	-	$1,833,268
Amortization for the period	-	70,449	50,709	28,869	7,959	85,449	7,685	-	251,120
Impairment loss	41,091	414,849	33,789	10	-	8,669	-	-	498,408
Disposal and retirements	-	(228)	(38,127)	(1,499)	(20,120)	(90,119)	-	-	(150,093)
Balance at March 31, 2011	$41,091	$923,271	$492,241	$454,039	$74,894	$438,560	$8,607	-	$2,432,703
Balance at April 1, 2011	$41,091	$923,271	$492,241	$454,039	$74,894	$438,560	$8,607	-	$2,432,703
Amortization for the period	-	39,601	49,362	27,115	6,383	78,839	5,809	-	207,109
Impairment loss	-	-	-	-	-	-	-	-	-
Disposal and retirements	-	(5,153)	(57,969)	(35,949)	(14,772)	(83,658)	-	-	(197,501)
Balance at March 31, 2012	$41,091	$957,719	$483,634	$445,205	$66,505	$433,741	$14,416	-	$2,442,311

Ontario Lottery and Gaming Corporation
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12. Property, plant and equipment (continued)

Carrying amounts

	Land	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Lottery gaming assets	Casino and racetrack slot operations gaming assets	Assets under finance lease	Construction in progress and assets not yet in use	Total
Balance at April 1, 2010	$137,824	$1,409,467	$136,598	$197,491	$26,678	$207,625	$47,365	$106,504	$2,269,552
Balance at March 31, 2011	$96,733	$959,208	$105,842	$173,346	$23,188	$186,322	$39,680	$77,925	$1,662,244
Balance at March 31, 2012	$96,733	$935,746	$108,150	$158,328	$17,626	$184,341	$33,871	$49,729	$1,584,524

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

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12. Property, plant and equipment (continued)

The Corporation leases items of property, plant and equipment under finance lease agreements. The leases are structured in a manner that significant risks and rewards incidental to ownership of the leased assets have been transferred to OLG. At March 31, 2012, the net carrying amount of leased property, plant and equipment was $33,871,000 (March 31, 2011 - $39,680,000, April 1, 2010 - $47,365,000).

Impairment

Management performed an impairment analysis on the Caesars Windsor CGU on transition to IFRS and at March 31, 2011 as a result of the following impairment indicators:

- Ongoing cross-border competition resulting in declining numbers of U.S. visitors to Ontario and increasing numbers of Ontario visitors to the U.S.;
- Reduced numbers of U.S. visitors resulting from a strong Canadian dollar and the implementation of passport requirements; and
- Continued poor economic and financial performance of Caesars Windsor.

The Corporation estimated the recoverable amount of the CGU using the value in use method, using a discounted cash flow model. Cash flow projections were based on the annual approved budget and Management developed projections thereafter. These cash flows are Management's best estimate of future events taking into account past experience and future economic assumptions. The discount rate of five per cent that was applied to the cash flow projections was derived from Management's consideration of current market assessments and the risks specific to the CGU.

On transition to IFRS, April 1, 2010, Management determined that the recoverable amount of the Caesars Windsor CGU exceeded the carrying value and, therefore, an impairment charge was not required.

At March 31, 2011, Management determined the recoverable amount of the Caesars Windsor CGU was less than its carrying value and, as a result, an impairment loss of $493,000,000 was recognized in other charges in the consolidated statement of comprehensive income. The impairment loss was allocated on a pro rata basis to property, plant and equipment to reduce the carrying value of the CGU at Caesars Windsor. The impairment loss relates to the Resort Casinos operating segment (Note 28).

At March 31, 2011, Management also determined that an impairment loss of $5,408,000 was required to reduce the carrying value of a Slots at Racetracks CGU and a bingo CGU to their recoverable amounts. The loss is included in other charges in the consolidated statement of comprehensive income. The impairment loss relates to the OLG Slots and Casinos and Lottery and Bingo operating segments in Note 28 for $1,480,000 and $3,928,000, respectively.

Management did not identify any further impairment indicators at any of the Corporation's CGUs and, therefore, has not recognized any additional impairment loss at March 31, 2012.

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13. Trade and other payables

	March 31, 2012	March 31, 2011	April 1, 2010
Trade payables and accruals	$82,123	$82,909	$75,042
Prizes payable	39,035	37,599	49,390
Employee benefits liability	48,031	46,687	52,370
Gaming liability	64,828	55,421	52,363
Commissions payable	32,073	26,072	30,739
Other payables and accruals	34,890	47,297	44,153
Trade and other payables	$300,980	$295,985	$304,057

Prizes payable comprise unclaimed and estimated lottery and bingo prizes.

The accrual for employee benefits includes salaries payable, incentive accruals, long-term service awards, vacation pay accrual and other employee-related liabilities.

Gaming liability comprises progressive jackpots, unredeemed chips, customer loyalty incentive points and other gaming-related payables. Progressive jackpots are measured based on the anticipated payout of the progressive jackpots. Unredeemed chips comprise funds deposited by patrons before gaming play occurs for chips in the patron's possession. Customer loyalty incentive points, earned based on the volume of play and redeemable for complimentary goods and services and/or cash, are recognized as a liability and measured at the amount payable on demand.

Commissions payable comprise payments to bingo service providers, racetrack site holders and the horse racing industry, as well those owing to municipalities that host an OLG Casino or Slots at Racetracks facility.

Other payables and accruals include accrued win-tax, casino customer deposits, security deposits and other.

The Corporation's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 24.

14. Provisions

All provisions are included in current liabilities. The carrying amount is as follows:

	Legal claims	Restructuring provision	Other provisions	Total
Balance at April 1, 2010	$1,916	$ -	$6,199	$8,115
Increases and additional provisions	2,228	-	755	2,983
Amounts paid	(1,422)	-	(260)	(1,682)
Amounts reversed	(374)	-	(1,002)	(1,376)
Balance at March 31, 2011	$2,348	$ -	$5,692	$8,040

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

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14. Provisions (continued)

	Legal claims	Restructuring provision	Other provisions	Total
Balance at April 1, 2011	$2,348	$ -	$5,692	$8,040
Increases and additional provisions	2,616	46,260	1,310	50,186
Amounts paid	(1,023)	-	(614)	(1,637)
Amounts reversed	(1,242)	-	(578)	(1,820)
Balance at March 31, 2012	$2,699	$46,260	$5,810	$54,769

Legal claims

The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. Estimates, where appropriate, have been included in the consolidated statement of financial position. The ultimate outcome or actual cost of settlement may vary significantly from the original estimates. Material obligations that have not been recognized as provisions, as the outcome is not probable or the amount cannot be reliably estimated, are disclosed as contingent liabilities, unless the likelihood of outcome is remote (see Note 27).

Restructuring provision

At March 31, 2012, the Corporation recognized $46,260,000 in current provision balances (March 31, 2011 - $nil) associated with restructuring charges as disclosed in Note 22 relating to the expected costs to be incurred resulting from the Corporation's Modernization Plan. It is anticipated that substantially all of the accrued restructuring liabilities will be paid in the year ending March 31, 2013.

The recognition of these restructuring charges requires Management to make certain judgments and estimates regarding the nature, timing and amounts associated with these restructuring plans. Adjustments to the recognized amounts may be required to reflect actual experience or changes in future estimates.

Other provisions

Other provisions include provisions for decommissioning obligations and onerous contracts.

The Corporation recognized a discounted liability associated with decommissioning obligations arising from terms in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. This provision is associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets.

The Corporation has contracts with various Bingo operators which provide certain commissions be paid on gross revenue resulting in recurring losses. The lower of the cost to fulfill the contracts and the penalty from failure to fulfill them is recognized as a current provision in the period.

15. Personnel expenses

Total personnel expenses, including Resort Casinos and Great Blue Heron Slot Machine Facility, for the year ended March 31, 2012 amounted to $950,562,000 (March 31, 2011 - $946,643,000).

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16. Finance income and finance costs

	March 31, 2012	March 31, 2011
Interest income on financial assets at fair value through profit and loss and loans and receivables	$3,789	$3,023
Finance income	$3,789	$3,023
Interest on bank overdraft and loans	$(3,833)	$(4,600)
Interest on obligations under finance lease	(3,846)	(4,479)
Other interest expenses	(102)	(2,441)
Total interest expense for financial liabilities not classified at fair value through profit and loss	(7,781)	(11,520)
Finance costs	$(7,781)	$(11,520)
Net finance costs recognized in net income and comprehensive income	$(3,992)	$(8,497)

17. Related parties

The Corporation is related to various other government agencies, ministries and Crown corporations. Related party transactions include loan agreements with the Ontario Financing Authority, as described in Note 23 to the consolidated financial statements as well as Due to operators (Note 18) and Due to Rama First Nation (Note 19).

All transactions with these related parties are in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

Transactions with key management personnel

Key management personnel compensation

The Corporation's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Corporation and consist of the Corporation's Board of Directors and Executive Leadership Team.

Key management personnel compensation comprised the following:

	March 31, 2012	March 31, 2011
Short-term employee benefits	$3,552	$2,643
Post-employment benefits	213	220
Termination benefits	246	758
	$4,011	$3,621

Short-term employee benefits include salaries and benefits and other short-term compensation.

Post-employment benefits include employer's portion of pension and other post-retirement benefits.

Termination benefits include compensation related to voluntary and involuntary termination of employment.

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18. Due to operators

Under the terms of the development and operating agreements for each of the Resort Casinos and the Great Blue Heron Slot Machine Facility, each operator is entitled to receive an operator's fee calculated as a percentage of gross revenue and as a percentage of net operating margin, both as defined in each of the related development and operating agreements. The operators of the Casinos are as follows: Casino Niagara and Fallsview – Falls Management Group, L.P., the general partner of which is Falls Management Company (owned by Niagara Casino Group, L.P., Highland Gaming, Inc., Shiplake Gaming Corporation, Olympic V, Inc. and 3048505 Nova Scotia Company) and the sole limited partner of which is Falls Entertainment Corporation; Casino Rama – CHC Casinos Canada Limited, an indirectly wholly owned subsidiary of Penn National Gaming, Inc. (Penn); the Great Blue Heron Slot Machine Facility – Great Blue Heron Gaming Company, owned by CAI Ontario Inc. and others; and Caesars Windsor – Windsor Casino Limited (WCL), which is owned equally by Caesars Entertainment Windsor Limited and a wholly owned subsidiary of Hilton Hotels Corporation. As at March 31, 2012, the amount due to operators was $38,110,000 (March 31, 2011 -$32,219,000, April 1, 2010 - $37,544,000).

Casino Rama was previously operated pursuant to a Development and Operating Agreement dated as of March 18, 1996, as amended (the "DOA") between, among others, the Corporation, CHC Casinos Canada Limited (the "Casino Rama Operator"), an indirect wholly owned subsidiary of Penn National Gaming, Inc., and Rama First Nation. The DOA expired on July 31, 2011.

The Corporation and the Casino Rama Operator (along with other Penn-related entities) entered into an interim operating agreement dated as of August 1, 2011 (the "Interim Operating Agreement"), on substantially the same terms and conditions as the DOA. The initial term of the Interim Operating Agreement was eight months and expired on March 31, 2012. Pursuant to the Interim Operating Agreement, the Corporation had one option to extend the term for up to an additional six months. On January 23, 2012, the Corporation exercised this option to extend the term for six months until September 30, 2012.

On January 22, 2010, the Corporation entered into a new operating agreement with Great Blue Heron Gaming Company, owned by CAI Ontario Inc. and others. The agreement commences on the opening of the new casino facility, ends on the earlier of 20 years from the opening and June 28, 2031 and has operating terms substantially similar to those contained in the current development and operating agreement.

Under the terms of the Niagara Falls Permanent Casino Operating Agreement, in a Competitive Environment, as defined, the Operator is entitled to receive additional Operator services fees and an Attractor fee. The Attractor fee is calculated, as defined, to allow for the amortization of the total capital contributions of the Operator to external attractors, including an amphitheatre and a people mover, to a maximum contribution of $30,000,000. As at March 31, 2012, the Operator's fees included an Attractor fee accrual of $5,070,000 (March 31, 2011 - $5,057,000, April 1, 2010 - $5,244,000). The Corporation's remaining commitment as at March 31, 2012 is $14,749,000.

Under the terms of a trademark licence agreement for the rebranding of Caesars Windsor, the Corporation pays a licence fee calculated as a percentage of the revenue and operating results, as defined, of Caesars Windsor. The trademark licence agreement, with a wholly-owned indirect subsidiary of Caesars Entertainment Windsor Limited, will terminate on July 31, 2020 or on such earlier date as Caesars Entertainment Windsor Limited or its subsidiary ceases to be the Operator of Caesars Windsor. As at March 31, 2012, the amount due in respect of the trademark licence agreement was $1,953,000 (March 31, 2011 - $959,000, April 1, 2010 - $nil), recorded in Due to operators on the consolidated statement of financial position.

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18. Due to operators (continued)

At each of the Resort Casinos, the Operator is the employer of the employees working at that Resort Casino. All payroll and payroll-related costs are charged to the Corporation on a monthly basis and expensed in the Corporation's consolidated statement of comprehensive income and included in amounts disclosed in Note 15.

19. Due to Rama First Nation

a. Casino Rama is located on reserve lands of Rama First Nation under the authority of a 25-year sublease (expiring in March 2021) between the Corporation and Casino Rama Inc., a wholly owned subsidiary of Rama First Nation. The lands are leased by Casino Rama Inc. from Her Majesty the Queen in Right of Canada under a 25-year lease, which expires in March 2021. Annual rent payable under this lease, adjusted for inflation, is paid out of the gross revenue of the Casino Rama complex to Rama First Nation in accordance with instructions from Indian and Northern Affairs Canada as representative for Her Majesty the Queen. During the year, $4,728,000 was expensed (March 31, 2011 - $4,583,000).

The terms of various agreements provide for the designation and leasing of Additional Parking Lands, as defined, by Rama First Nation to Casino Rama with an annual rent payable of approximately $1,700,000, adjusted for inflation. While the designation and leases are not yet complete, the lands are permitted and currently in use at Casino Rama. During the year, $2,126,000 was expensed (March 31, 2011 - $2,056,000).

b. Under the terms of the development and operating agreement for Casino Rama, Rama First Nation received an annual fee (the "Rama Allocation"), adjusted for inflation, related to the provision of ongoing operating services.

On January 26, 2010, the Corporation and Rama First Nation announced that they had entered into an agreement dated July 17, 2009 relating to Casino Rama for the 20-year period commencing August 1, 2011 and relating to possible future development. The key terms of the Post-2011 Contract, relevant to the Corporation, are as follows:

(i) The term of the Post-2011 Contract commenced on August 1, 2011 and continues until July 31, 2031, subject to earlier termination or the exercise by the Corporation of two successive options to extend the Post-2011 Contract for successive extension periods of ten years and five years, respectively. The Post-2011 Contract shall terminate on March 14, 2021 if Rama First Nation and the Rama Corporation do not replace the existing surrenders and permits with a new surrender or establish a land management regime on or before December 31, 2015;

(ii) Rama First Nation shall be entitled to receive an annual fee (the "Rama Fee") for each successive twelve-month period commencing August 1, 2011 in an amount equal to the greater of 1.9 per cent of the Gross Revenues of the Complex, as defined, and $5,500,000; and

(iii) The Corporation agrees to contribute $2,000,000 towards the capital cost of a gaming and executive development training centre upon presentation to and acceptance by the Corporation of a detailed Business Plan and Development Concept.

During the year, $7,311,000 was expensed (March 31, 2011 - $5,867,000), of which $1,967,000 relates to the Rama Allocation and $5,344,000 relates to the Rama Fee (March 31, 2011 - $5,867,000 relates to the Rama Allocation). As at March 31, 2012, $676,000 (March 31, 2011 - $492,000, April 1, 2010 - $483,000) was due to Rama First Nation.

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19. Due to Rama First Nation (continued)

Pursuant to the Post-2011 Contract: (a) Rama First Nation and the Province agreed to consent to the dismissal without costs of certain claims against the Province based on an alleged delay in the construction of Casino Rama, and certain claims related to the payment of 20 per cent of Casino Rama revenues asserted in the 35% Action and to make best efforts to obtain the COO's and OFNLP's consents to such dismissal (Note 10); and (b) Rama First Nation and the Province agreed to consent to the dismissal without costs of certain claims and crossclaims asserted by Rama First Nation against the Province in the 20% Action, and to use best efforts to obtain the consents to such dismissal from the COO and OFNLP.

It is the Corporation's understanding that the claims and crossclaims referred to in (a) and (b), above, have not yet been dismissed.

c. On April 30, 2002, an agreement was signed with Rama First Nation pursuant to which the Corporation and the Operator agreed to reimburse Rama First Nation an annual amount equal to 75 per cent of the annual operating budget of the fire department in exchange for fire protection services to the casino complex. This agreement expired on July 31, 2011.

In connection with the terms of the Post-2011 Contract (b), Rama First Nation and the Corporation entered into agreements relating to the provision of fire protection and policing services to the casino complex for a term commencing on August 1, 2011 and terminating on July 31, 2031, unless otherwise extended.

Payments made to Rama First Nation in connection with these emergency services, as well as snow removal, water and sewer amounted to $8,221,000 for the year ended March 31, 2012 (March 31, 2011 - $7,591,000). These payments were included in general and administration expenses as disclosed in Note 28. At March 31, 2012, $917,000 (March 31, 2011 - $930,000, April 1, 2010 - $1,094,000) was due to Rama First Nation.

d. Under the terms of a five-year lease ended July 2011, the Corporation rented office space from a company related to Rama First Nation. Pursuant to the terms of the Post-2011 Contract, a company related to Rama First Nation and the Corporation agreed to enter into a lease for the rental of office space for a term commencing on August 1, 2011 and terminating on July 31, 2014. An amount of $724,000 was expensed in fiscal 2012 (March 31, 2011 - $701,000).

Also, under the terms of an eight-year lease ended July 2011, an annual rental fee, adjusted for inflation, for warehouse space was paid to a company related to Rama First Nation. Pursuant to the terms of the Post-2011 Contract, a company related to Rama First Nation and the Corporation entered into a lease for warehouse space for a term commencing on August 1, 2011 and terminating on March 13, 2021. During the year, $367,000 was expensed (March 31, 2011 - $355,000).

Under the terms of a Letter of Agreement entered into by the Corporation in January 2007 regarding the management and administration of leasehold improvement projects at Casino Rama, Rama First Nation contracts directly with the contractors selected by the Corporation. During the year, $94,000 (March 31, 2011 - $128,000) was paid to Rama First Nation under this Letter of Agreement to pay contractors involved in the acquisition of leasehold improvements.

e. Under the terms of the Casino Rama Revenue Agreement dated June 9, 2000, OFNLP was entitled to the ongoing net revenues, as defined, of Casino Rama, as well as the proceeds from the disposition of the moveable assets, as defined, and remaining undistributed earnings upon the dissolution or winding up of Casino Rama.

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19. Due to Rama First Nation (continued)

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation, the Ontario First Nations (2008) Limited Partnership and OFNLP entered into the GRSFA. Pursuant to the terms of the GRSFA and an Order-in-Council, the Corporation was directed to pay OFNLP, commencing in fiscal year 2012 and in each fiscal year during the remainder thereafter of the 20-year term, an amount equal to 1.7 per cent of the Gross Revenues of the Corporation, as defined ("Gaming Revenue Sharing Payment"). These payments take the place of the ongoing net revenues that OFNLP would otherwise have been entitled to under the Casino Rama Revenue Agreement, entitlement to which ceased as of April 1, 2011 pursuant to the terms of the GRSFA. During the year, $119,352,000 was expensed as Gaming Revenue Sharing Payment as disclosed in Note 28.

In accordance with the terms of the GRSFA, the COO and OFNLP obtained an Order granting them leave to discontinue the litigation related to the 20 per cent win contribution commenced in Ontario Superior Court of Justice (the "20% Action") in its entirety against Her Majesty the Queen in Right of Ontario and against the Corporation. The COO and OFNLP delivered and filed a Notice of Discontinuance dated February 25, 2008 discontinuing without costs the 20% Action in its entirety as against Her Majesty the Queen in Right of Ontario and as against the Corporation.

20. Win contribution

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from the Resort Casinos and the Great Blue Heron Slot Machine Facility in accordance with the *Ontario Lottery and Gaming Corporation Act, 1999*, which amounts to $257,907,000 for the year ended March 31, 2012. The fiscal 2011 win contribution, which amounted to $274,069,000, was calculated based on the percentage applied to the previously reported gaming revenue in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

21. Due to the Government of Canada

As at March 31, 2012, the amount due to the Government of Canada was $15,117,000 (March 31, 2011 - $16,054,000, April 1, 2010 - $7,421,000).

a. Payments on behalf of the Province of Ontario

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b. Goods and Services Tax / Harmonized Sales Tax ("GST/HST")

As a prescribed registrant, the Corporation makes GST/HST remittances to the Government of Canada pursuant to the Games of Chance (*GST/HST*) Regulations of the *Excise Tax Act*. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities.

The net tax attributable to non-gaming activities is calculated similar to any other GST/HST registrant in Canada. The non-recoverable GST/HST payable to suppliers and the additional imputed tax payable to the Government of Canada on gaming-related expenses were recognized as payments to the Government of Canada as disclosed in Note 28.

The net tax attributable to gaming activities results in a 10 per cent tax burden on most taxable gaming expenditures incurred by the Corporation for the period up to June 30, 2010 and a 26 per cent tax burden thereafter following the implementation of HST legislation in Ontario.

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22. Other charges

	March 31, 2012	March 31, 2011
Restructuring (a)	$62,274	$ -
Impairment charge (b)	-	498,408
	$62,274	$498,408

a. Restructuring

The Corporation's restructuring charges for the year ended March 31, 2012 were $62,274,000, primarily comprising severance and facility exit costs and property, plant and equipment disposals relating to the closure of three Slots at Racetracks facilities. The provision for restructuring charges is disclosed in Note 14.

b. Impairment charge

The Corporation recognized an impairment loss for the year ended March 31, 2012 of $nil (March 31, 2011 - $498,408,000) (see Note 12).

23. Long-term debt

	March 31, 2012	March 31, 2011	April 1, 2010
Caesars Windsor loan (a)	$79,580	$125,318	$169,607
Ajax Downs loan (b)	10,769	14,697	18,233
Woodbine loan (c)	40,957	9,513	-
Obligation under finance lease (d)	44,436	46,062	47,550
	175,742	195,590	235,390
Less current portion	(58,449)	(55,885)	(49,313)
	$117,293	$139,705	$186,077

a. Caesars Windsor loan

In November 2008, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario, a related party) for purposes of financing the renovation and expansion of Caesars Windsor and for financing the construction of the Windsor Clean Energy Centre (the "Energy Centre"). The Energy Centre was constructed to provide electricity, heating and cooling to the expanded Caesars Windsor facilities. The initial loan balance of $226,483,000 plus interest is repayable over five years in equal monthly payments of $4,092,206. The loan bears interest at a rate of 3.2 per cent per annum and is unsecured.

b. Ajax Downs loan

In June 2009, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario, a related party) for purposes of financing the renovation and expansion of the slots facility at Ajax Downs. The initial loan balance of $18,524,000 plus interest is repayable over five years in equal monthly payments of $327,941. The loan bears interest at a rate of 2.4 per cent per annum and is unsecured.

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23. Long-term debt (continued)

c. Woodbine loan

In October 2010, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario, a related party) for purposes of financing the renovation and expansion of the slots facility at Woodbine Racetrack (the "Project"). The loan agreement provides a non-revolving construction period loan facility to a maximum of $92,800,000 consisting of phase A and phase B of the Project of $35,445,000 and $57,355,000, respectively.

The interest charged during construction is determined based on the Province of Ontario's 90-day Treasury Bill rate plus 0.38 per cent.

Phase A construction was completed during the year and the related construction loan facility was converted to a term loan in May 2011. The initial loan balance on conversion was $31,269,000, consisting of advances during the year of $21,756,000 (including capitalized interest during construction of $24,000) and $9,513,000 during the prior year. The term loan is repayable over five years in equal monthly payments of $560,904. The loan bears interest at a rate of 2.931 per cent per annum and is unsecured. The Phase A loan balance at March 31, 2012 was $26,370,000.

Advances received for phase B during the year were $14,587,000 (including capitalized interest of $87,000) and $nil during the prior year.

d. Obligation under finance lease

Effective March 2010, the Corporation entered into an amending agreement for an additional 15-year lease term with Maple Leaf Entertainment Inc., Canadian Niagara Hotels Inc., 1032514 Ontario Limited and Greenberg International Inc., to lease the facility which houses Casino Niagara and to license the adjacent parking facilities. The agreement extends the term of the original lease and licence agreements by an additional term of 15 years from March 10, 2010 to expire on March 9, 2025. This agreement is considered to be a finance lease for accounting purposes and has a calculated implicit interest rate of 8.2 per cent.

e. Payments over the next five years and thereafter

Payments related to long-term debt and obligation under finance lease that are expected to be made over the next five years and thereafter are approximately as follows:

March 31	Long-term debt	Obligation under finance lease		Total
	Repayments	Principal	Interest	
2013	$56,678	$1,771	$3,729	$62,178
2014	45,113	1,928	3,572	50,613
2015	12,798	2,112	3,400	18,310
2016	9,508	2,496	3,204	15,208
2017	4,119	2,717	2,983	9,819
Thereafter	3,090	33,412	12,860	49,362
	$131,306	$44,436	$29,748	$205,490

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23. Long-term debt (continued)

On March 25, 2008, the Province of Ontario introduced a bill which, if passed, would amend the *Ontario Lottery and Gaming Corporation Act, 1999*, to require the Corporation to finance certain of its capital expenditures with debt obtained from the Ontario Financing Authority. The approval of the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures. The bill will come into force on a future date to be determined; however, the Corporation has operated under the spirit of the proposed legislation since April 1, 2008.

24. Financial risk management and financial instruments

a. Overview

The Corporation has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Corporation's exposure to each of the above risks and the Corporation's objectives, policies and processes for measuring and managing these risks.

b. Risk management framework

The Board of Directors, through its Audit and Risk Management Committee ("ARMC"), provides oversight with respect to the identification and management of risk along with adherence to internal risk management policies and procedures. The committee reports regularly to the Board of Directors on its activities.

The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The ARMC oversees how Management monitors compliance with the Corporation's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation. The ARMC is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ARMC.

c. Credit risk

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its financial or contractual obligations with the Corporation. The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of trade and other receivables, loans receivable and liquid investments.

Trade and other receivables and loans receivable

Trade and other receivables include credit provided to retailers of lottery products, bingo service providers and patrons of Resort Casinos. Loans receivable consist of loans to racetrack operators. The Corporation performs ongoing credit evaluations of retailers, bingo service providers, patrons and racetrack operators and maintains reserves for potential credit losses on both accounts receivable and loans receivable balances. The carrying amount of these financial assets represents the maximum credit exposure.

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24. Financial risk management and financial instruments (continued)

c. Credit risk (continued)

Trade and other receivables and loans receivable (continued)

The amounts disclosed in the consolidated statement of financial position are net of allowances for doubtful accounts, which consist of a specific provision that relates to individually significant exposures, estimated by Management based on prior experience and its assessment of the current economic environment. The Corporation establishes an allowance for doubtful accounts that represents its estimate of potential credit losses but historically has not experienced any significant losses. As at March 31, 2012, the Corporation had an allowance for doubtful accounts of $7,463,000 (March 31, 2011 - $7,094,000, April 1, 2010 - $6,785,000), which represented approximately 7.9 per cent (March 31, 2011 - 7.0 per cent, April 1, 2010 - 5.8 per cent) of the Corporation's consolidated accounts receivable and loans receivable. The Corporation believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk.

The Corporation limits its exposure to credit risk by investing only in short-term debt securities with high credit ratings and minimal market risk. The Corporation has a formal policy in place for short-term investments which provides direction for Management to minimize risk. All investments held by the Corporation are low-risk and have a term to maturity of less than 90 days, and as a result, the risk is considered minimal.

d. Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without jeopardizing the Corporation's revenue commitment to the Province of Ontario.

The Corporation currently settles its financial obligations using cash provided by operations. The Corporation has established reserves at the Resort Casinos in accordance with their respective operating agreements, or other terms as otherwise agreed. In addition, all investments held by the Corporation are low-risk and have a term to maturity of less than 90 days, further reducing liquidity risk.

The Corporation manages its liquidity risk by performing regular reviews of gross profit and cash flows from operations and continuously monitoring the forecast against future liquidity needs. Given the Corporation's unique line of business, which historically has generated positive cash flows, liquidity risk is of minimal concern.

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24. Financial risk management and financial instruments (continued)

d. Liquidity risk (continued)

The undiscounted contractual maturities of the financial liabilities are as follows:

March 31, 2012	Carrying amount	Contractual cash flows	< 1 year	1 – 2 years	2 – 5 years	> 5 years
Trade and other payables	$300,980	$300,980	$300,980	-	-	-
Due to operators	38,110	38,110	38,110	-	-	-
Due to Rama First Nation	1,593	1,593	1,593	-	-	-
Due to the Government of Canada	15,117	15,117	15,117	-	-	-
Long-term debt, including obligation under finance lease	175,742	175,742	58,449	47,041	33,750	36,502
	$531,542	$531,542	$414,249	$47,041	$33,750	$36,502

March 31, 2011	Carrying amount	Contractual cash flows	< 1 year	1 – 2 years	2 – 5 years	> 5 years
Trade and other payables	$295,985	$295,985	$295,985	-	-	-
Due to operators	32,219	32,219	32,219	-	-	-
Due to Rama First Nation	1,422	1,422	1,422	-	-	-
Due to the Government of Canada	16,054	16,054	16,054	-	-	-
Due to First Nations	8,673	8,673	8,673	-	-	-
Long-term debt, including obligation under finance lease	195,590	195,590	55,885	57,330	46,246	36,129
	$549,943	$549,943	$410,238	$57,330	$46,246	$36,129

e. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, foreign currency risk and other market price risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation has financial assets and liabilities that potentially expose it to interest rate risk.

The Corporation is subject to interest rate risk on its cash and cash equivalents, including short-term investments with maturity dates of less than 90 days, loans receivable and long-term debt.

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24. Financial risk management and financial instruments (continued)

e. Market risk (continued)

(i) Interest rate risk (continued)

Loans receivable consist of loans to racetrack operators and interest earned on these loans is tied to changes in the prime interest rate. The interest rate risk is limited to the interest earned on the assets and the underlying value of the asset is not at risk due to fluctuations in interest rates.

Long-term debt currently consists of three loan agreements entered into with the Ontario Financing Authority and an obligation under finance lease. The obligation under finance lease (refer to Note 23.d), and the term loan agreements have a fixed interest rate for the entire term and are currently subject to limited interest rate risk.

At March 31, 2012, the Corporation had cash and cash equivalents of $359,893,000 (March 31, 2011 - $314,572,000, April 1, 2010 - $324,640,000) and loans receivable of $20,179,000 (March 31, 2011 - $25,718,000, April 1, 2010 - $31,979,000). The impact of fluctuations in interest rates is not significant and, accordingly, a sensitivity analysis of the impact of fluctuations in interest rates on net income has not been provided.

(ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation is exposed to foreign currency risk by settling certain obligations in foreign currencies (primarily U.S. dollars – USD) and by holding bank accounts and investments in USD.

The majority of the Corporation's suppliers and patrons are based in Canada and, therefore, transact in Canadian dollars (CAD). Some suppliers and patrons are based outside of Canada. The suppliers located outside of Canada typically transact in USD. The Corporation's border properties attract U.S. players who are required to exchange their USD for CAD prior to play. The Corporation exchanges USD using the daily market exchange rate, and utilizes both a 'buy' and 'sell' rate. The Corporation holds USD cash and bank accounts for the purposes of transacting in USD with patrons, as well as paying its U.S.-based suppliers. The balances held in USD are closely monitored to ensure future USD requirements are met. As a result, there is some exposure to foreign currency fluctuations and the Corporation's foreign exchange gain for the year ended March 31, 2012 was $8,307,000 (March 31, 2011 - $8,435,000).

The Corporation does not enter into financial instruments for trading or speculative purposes.

The Corporation's exposure to currency risk, based on the carrying amounts, is as follows:

USD	**March 31, 2012**	**March 31, 2011**	**April 1, 2010**
Cash and cash equivalents	$19,792	$22,631	$16,030
Trade and other payables	(3,175)	(4,780)	(5,781)
Net exposure	$16,617	$17,851	$10,249

All USD balances are shown in CAD equivalents.

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24. Financial risk management and financial instruments (continued)

e. Market risk (continued)

(ii) Foreign currency risk (continued)

Sensitivity analysis

A 10 per cent increase in the value of the USD at March 31, 2012 would have increased net income by $1,662,000. A 10 percent decrease in the value of the USD at March 31, 2012 would have had the equal but opposite effect. This analysis assumes that all other variables, including interest rates, remain constant.

(iii) Other market price risk

The Corporation offers sports-based lottery products in the marketplace. The Corporation manages risks associated with these products by setting odds for each event within a short time frame before the actual event, by establishing sales liability thresholds by sport, by providing credit management controls, by posting conditions and prize structure statements on www.OLG.ca and by limiting the aggregate amount of prizes that may be won on any given day for all sports-based products. The Corporation also has the authority to suppress sales of any game at any time when liability risk is a concern.

f. Fair values measurement

Financial instruments are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Corporation has determined the fair value of its financial instruments as follows:

The Corporation's financial instruments carried at fair value on the consolidated statement of financial position, which consist of cash and cash equivalents, restricted cash, cash and short-term investments held for First Nations, are valued using quoted market prices, which is included in Level 1.

The carrying amounts in the consolidated statement of financial position of trade and other payables, due to operators, due to Rama First Nation, due to the Government of Canada and due to First Nations approximate fair values because of the short-term nature of these financial instruments or because they are receivable/payable on demand.

Loans receivable and trade and other receivables are carried at amortized cost using the effective interest method. The carrying value of loans receivable approximates the fair value as the rates utilized in the effective interest calculations reflect market prime rates. The loans receivable is included in Level 2 since their fair market value measurements are based on observable inputs.

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24. Financial risk management and financial instruments (continued)

f. Fair values measurement (continued)

The fair value of the Corporation's long-term debt, excluding the obligation under the finance lease, is not determinable given its related party nature and there is no observable market for the Corporation's long-term debt. The obligation under finance lease is included in Level 2 since its fair market value measurement is based on observable market data other than quoted prices.

There were no financial statement categories in Level 3 (valuation techniques using non-observable data) for the period ended March 31, 2012 and prior periods March 31, 2011 and April 1, 2010.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

25. Employee benefits

a. Defined contribution plans

The operators of the Resort Casinos and the Great Blue Heron Slot Machine Facility have created defined contribution pension plans for their employees. The pension expense for the period ended March 31, 2012 amounted to $20,494,000 (March 31, 2011 - $20,946,000).

b. Other post-employment benefit plans

The Corporation provides pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the PSPF and the OPSEU Pension Fund, which are sole sponsored defined benefit pension plans established by the Province of Ontario. The Province controls all entities included in the PSPF and OPSEU Pension Plans. The Corporation classified these plans as state plans whereby there is no contractual agreement or stated policy for charging the net defined benefit cost of the plans to the Corporation. As such, the Corporation accounts for these post-employment benefits as defined contribution plans and has recorded no additional liability for the plan deficit. The annual contributions made by the Corporation are recorded as an expense in the consolidated statement of comprehensive income. The Corporation's contribution and pension expense during the year was $21,033,000 (March 31, 2011 - $20,624,000).

c. Other long-term employee benefits

As a Schedule 2 employer under the *Workplace Safety and Insurance Act*, 1997, ("Act"), the Corporation is individually responsible for the full cost of accident claims filed by its workers. The Workplace Safety and Insurance Board ("WSIB") maintains full authority over the claims entitlement process, and administers and processes claims payments on the Corporation's behalf. WSIB liabilities for self-insured employers are reported on the consolidated statement of financial position.

The WSIB accrual at March 31, 2012 was $23,700,000 (March 31, 2011 - $23,354,000, April 1, 2010 - $20,320,000), of which $21,567,000 (March 31, 2011 - $21,252,000, April 1, 2010 - $18,694,000) is included in employee benefits liability and $2,133,000 (March 31, 2011 - $2,102,000 April 1, 2010 - $1,626,000) is included in trade and other payables. The accrued benefit costs are based on actuarial assumptions.

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25. Employee benefits (continued)

c. Other long-term employee benefits (continued)

The operators of the Resort Casinos and the Great Blue Heron Slot Machine Facility are Schedule 1 employers under the Act and are not subject to the financial reporting requirements of self-insured employers.

d. Short-term employee benefits

Short-term employee benefits include salaries payable, incentive accruals, vacation accruals, severance accruals and other employee-related payables which have been recorded in trade and other payables (Note 13).

26. Commitments

a. Obligations under operating leases

The Corporation has entered into several operating leases for property and equipment. The future minimum lease payments are approximately, as follows:

	March 31, 2012
No later than 1 year	$10,849
Later than 1 year and not later than 5 years	33,675
Later than 5 years	34,417
	$78,941

b. HST on lease commitments

The Corporation and the Resort Casinos have entered into several agreements to lease property, plant and equipment from the Corporation's subsidiary and other external parties. The non-recoverable HST and the additional imputed tax on the gaming-related assets payable to the Federal Government, as described in Note 21.b, on the future lease payments are approximately, as follows:

2013	$ 41,451
2014	36,867
2015	29,424
2016	22,398
2017	17,306
	147,446
Thereafter	267,431
	$414,877

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26. Commitments (continued)

c. Suppliers

The Corporation has computer hardware maintenance agreements with future payments as at March 31, 2012 of approximately:

2013	$16,938
2014	9,736
2015	2,674
2016	99
2017	-
	$29,447

d. Caesars Windsor

In connection with the terms of an agreement between Caesars Windsor and the City of Windsor (the "City"), the Corporation agreed to provide the City with compensatory payments over 20 years with payments commencing May 1, 1998 of $2,600,000 per annum for the first ten years and $3,000,000 per annum for the last ten years.

In fiscal 2012, the Corporation transferred cash of $62,000,000 to Caesars Windsor for their working capital requirements. The Corporation has committed to transfer up to $85,000,000 to Caesars Windsor in fiscal 2013 for working capital.

e. Niagara Fallsview Casino Resort

In connection with the terms of an agreement between Fallsview and the City of Niagara Falls (the "City"), the Corporation agreed to provide the City with compensatory payments commencing December 7, 2000 in the amount of $2,600,000 per annum for the first ten years, $3,000,000 per annum for the next ten years and $3,000,000 per annum thereafter, for as long as Fallsview does not cease operations, adjusted for Consumer Price Index as defined in the agreement.

f. OLG Slots and Casinos

The Corporation was committed to the establishment of an additional Slots at Racetracks operation at March 31, 2012; however, the Corporation subsequently terminated the site holder agreement on April 27, 2012.

In connection with the terms of an amending agreement and an assignment, consent and acknowledgement agreement between the Corporation and a site holder at one of the Slots at Racetracks facilities, the Corporation agreed to provide the site holder with payments commencing December 31, 2009 in the amount of $5,600,000 per annum for three years in lieu of a predetermined percentage of revenue from slots. This relates to one of the slot facilities that the Corporation closed on April 30, 2012.

In connection with the terms of an amending agreement between the Corporation and a Slots at Racetracks site holder, the Corporation agreed to amend the horse racing industry payment during the five-year period commencing January 1, 2011 to a predetermined amount of $8,000,000 per annum in lieu of a predetermined percentage of revenue from slots at the site. This amending agreement relates to one of the Slots at Racetracks facilities in respect of which the Corporation terminated the site holder agreement effective March 31, 2013. The Corporation has made no formal commitment to make payments subsequent to March 31, 2013.

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26. Commitments (continued)

f. OLG Slots and Casinos (continued)

On April 30, 2012, the Corporation closed three Slots at Racetracks facilities. The Corporation has offered to make certain payments to these facilities in respect of the period from May 1, 2012 to March 31, 2013 which have been recorded in provisions (Note 14). For these facilities, and the 14 Slots at Racetracks facilities in respect of which the Corporation terminated the site holder agreement effective March 31, 2013, the Corporation has made no formal commitment to make payments subsequent to March 31, 2013.

g. Mississaugas of Scugog Island First Nation ("MSIFN")

In fiscal 2010, the Corporation and the MSIFN entered into a conditional agreement to construct a new casino facility to replace the existing tent structure, on MSIFN reserve lands, at an estimated total cost of $165,000,000. On February 18, 2009, the Corporation's Board of Directors approved the expenditure of $83,800,000 as the Corporation's share of the project costs. The approval was conditional on MSIFN's obtaining a commitment for financing for its portion of the project costs of $81,200,000. The agreements to construct and operate the new facility are subject to a number of conditions precedent that are all required to be met by an agreed-upon date (currently, July 31, 2012).

Under the terms of the development and operating agreement, the MSIFN receives an amount equal to five per cent of the gross revenue of the Great Blue Heron Slot Machine Facility in consideration for provision of the lands used for the Slot Machine Facility. During the year, $3,870,000 (March 31, 2011 - $3,755,000) was paid to the MSIFN.

27. Contingencies

a. The Corporation has signed six Bingo Centre Service Provider Agreements (the "Service Providers") for Bingo Revitalization Project pilot site operations in Barrie, Peterborough, Kingston, Sudbury and two in Windsor. The contracts provide that, in the event of notification of termination of the Bingo Revitalization Project pilot by the Corporation, or if the Service Providers and the Corporation mutually agree to not renew or extend the Agreements, the Corporation will be required to pay the Service Providers an amount not to exceed $4,998,000 in respect of the Service Providers' capital investments in the Bingo Centres. No events have taken place to indicate that the pilot sites will not continue, and as such, no amounts have been accrued in the consolidated statement of financial position at March 31, 2012.

b. On June 10, 2008, the Corporation was served with a statement of claim related to a class action for general damages and punitive damages totalling $3,500,000,000. The statement of claim alleges that the Corporation was negligent in its duty of care to prohibit self-excluded patrons from gaming at the Corporation's gaming sites. In a decision released on March 15, 2010, the plaintiff's motion was dismissed and denied certification. Procedures related to this action are ongoing. On April 14, 2010, the plaintiff filed on appeal of the decision. The appeal was dismissed by Divisional Court on December 2, 2011. The plaintiff filed its Leave to Appeal to the Court of Appeal on March 12, 2012. The Corporation will continue to defend itself through the appeals process. The outcome is undeterminable at this time and no amounts have been accrued in the consolidated statement of financial position.

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27. Contingencies (continued)

c. On May 20, 2009, the Corporation was served with a statement of claim related to a class action for general damages and punitive damages for an amount yet to be determined. The statement of claim alleges that the Corporation was in breach of contract by not discontinuing the sales of certain instant lottery game tickets once the top prizes were won. The action is at a very early stage, as no action has taken place since May 2009 and no class has been certified by the Courts. The Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in the consolidated statement of financial position.

d. On September 28, 2009, the Corporation was served with a statement of claim from Buttcon Construction Limited and Buttcon Energy Inc. (collectively "Buttcon") related to the operation and ownership of the Windsor Energy Centre. The claim was for general damages and punitive or exemplary damages totalling $177,000,000 plus prejudgment interest and costs. Buttcon alleges amongst other things, breach of contract, breach of duty of good faith, deceit, misrepresentation, unlawful interference with legitimate business expectancy, loss of opportunity and damage to business reputation. On November 10, 2009, the Corporation served and filed its statement of defence and counterclaim, in which the Corporation denies the allegations in the Buttcon statement of claim and counterclaims for damages in the amount of $56,000,000 for breach of the operation and maintenance, improper management of the construction project, neglect and failure to return the Corporation's property. On November 16, 2009, common documentary production and discoveries were ordered regarding the claims made by Buttcon and River Oaks, as discussed in paragraph 27.e below. Both claims are currently in the discovery phase. The Corporation intends to continue to defend itself. The outcome is undeterminable as at March 31, 2012 and no amounts have been accrued in the consolidated statement of financial position.

e. On October 17, 2008, the Corporation was served with a statement of claim from the Windsor Energy Centre L.P. ("River Oaks") related to the operation and ownership of the Windsor Energy Centre. The claim was for general and punitive damages totalling $80,500,000 plus interest and costs. River Oaks alleges amongst other things, breach of contract, misrepresentation and loss of opportunity. On February 20, 2009, the Corporation served and filed its statement of defence, in which the Corporation denies the allegations in the River Oaks statement of claim. On November 16, 2009, common documentary production and discoveries were ordered regarding the claims made by River Oaks and Buttcon, as discussed above. Both claims are currently in the discovery phase. The Corporation intends to continue to defend itself. The outcome is undeterminable as at March 31, 2012 and no amounts have been accrued in the consolidated statement of financial position.

f. The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on its consolidated statement of financial position. Estimates, where appropriate, have been included in the consolidated statement of financial position, (see Note 14); however, additional settlements, if any, concerning these contingencies will be accounted for as a charge to the consolidated statement of comprehensive income in the period in which the settlement occurs.

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28. Operating segments

The Corporation has three reportable segments, as described below, which are the Corporation's strategic business units. The strategic business units are distinct revenue-generating business units that offer different products and services and are managed separately because they require different technologies and marketing strategies. The chief operating decision-maker, which is the Corporation's ELT, reviews internal management reports on a monthly basis for each of the strategic business units. The following summary describes the operations in each reportable segment:

- Lottery and bingo derives its revenue from the sale of lottery and bingo products, which includes online, instant and sports products.

- Resort Casinos are full-service casinos that offer patrons a variety of amenities, in addition to slot and table games, including accommodations, entertainment and food and beverage services.

- The OLG Slots and Casinos are scaled-down gaming facilities. The Casinos offer slot and table games, as well as food and beverage services. The Slots at Racetracks are located at racetrack sites and include only slot games; however, some locations offer food and beverage services.

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28. Operating segments (continued)

March 31, 2012	Lottery and Bingo	Resort Casinos	OLG Slots and Casinos	Total
Revenues				
Lottery and bingo	$3,286,892	$ -	$ -	$3,286,892
Gaming (slots and tables)	-	1,214,329	2,110,275	3,324,604
Non-gaming	-	89,583	15,613	105,196
	3,286,892	**1,303,912**	**2,125,888**	**6,716,692**
Expenses				
Non-gaming	-	228,526	38,838	267,364
Gaming and lottery operations	110,793	258,148	296,159	665,100
Lottery and bingo prizes	1,801,112	-	-	1,801,112
Commissions	236,381	-	424,699	661,080
Marketing and promotion	55,243	150,825	99,158	305,226
Operators' fees	-	62,705	4,013	66,718
Amortization	12,925	110,825	83,359	207,109
General and administration	48,612	100,670	78,598	227,880
Facilities	8,929	136,250	81,509	226,688
Gaming Revenue Sharing Payment (Note 19.e)	55,260	25,565	38,527	119,352
Win contribution (Note 20)	-	242,942	14,965	257,907
Payments to the Government of Canada (Note 21)	99,214	84,439	80,339	263,992
	2,428,469	**1,400,895**	**1,240,164**	**5,069,528**
Segment profit (loss) before the undernoted	**858,423**	**(96,983)**	**885,724**	**1,647,164**
Other income	1,380	14,042	17,426	32,848
Finance income (Note 16)	-	2,379	1,410	3,789
Finance costs (Note 16)	(1,877)	(4,667)	(1,237)	(7,781)
Foreign exchange (loss) gain (Note 24.e)	(1)	7,197	1,111	8,307
Other charges (Note 22)	(795)	(372)	(61,107)	(62,274)
Segment profit (loss)	**$857,130**	**$(78,404)**	**$843,327**	**$1,622,053**

	Lottery and Bingo	Resort Casinos	OLG Slots and Casinos	Total
Capital expenditures	$3,152	$63,476	$83,659	$150,287

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

28. Operating segments (continued)

March 31, 2011	Lottery and Bingo	Resort Casinos	OLG Slots and Casinos	Total
Revenues				
Lottery and bingo	$3,320,994	$ -	$ -	$3,320,994
Gaming (slots and tables)	-	1,213,234	2,053,027	3,266,261
Non-gaming	-	89,754	14,637	104,391
	3,320,994	**1,302,988**	**2,067,664**	**6,691,646**
Expenses				
Non-gaming	-	232,293	36,784	269,077
Gaming and lottery operations	118,228	263,520	282,314	664,062
Lottery and bingo prizes	1,835,865	-	-	1,835,865
Commissions	234,526	-	413,717	648,243
Marketing and promotion	59,446	151,978	95,464	306,888
Operators' fees	-	60,962	3,934	64,896
Amortization	15,532	148,906	86,682	251,120
General and administration	52,042	102,828	73,622	228,492
Facilities	9,022	135,016	80,487	224,525
Win contribution (Note 20)	-	259,110	14,959	274,069
Payments to the Government of Canada (Note 21)	83,028	77,306	67,264	227,598
	2,407,689	**1,431,919**	**1,155,227**	**4,994,835**
Segment profit (loss) before the undernoted	**913,305**	**(128,931)**	**912,437**	**1,696,811**
Other income	1,839	14,735	12,586	29,160
Finance income (Note 16)	-	1,521	1,502	3,023
Finance costs (Note 16)	(2,441)	(8,674)	(405)	(11,520)
Foreign exchange gain (Note 24.e)	12	6,931	1,492	8,435
Other charges (Note 22)	(3,928)	(493,000)	(1,480)	(498,408)
Segment profit (loss)	**$908,787**	**$(607,418)**	**$926,132**	**$1,227,501**

	Lottery and Bingo	Resort Casinos	OLG Slots and Casinos	Total
Capital expenditures	$8,394	$57,411	$87,420	$153,225

29. Subsequent events

On June 6, 2012, WCL, the operator of Caesars Windsor, became a wholly owned subsidiary of Caesars Entertainment Windsor Limited.

30. Explanation of transition to IFRS

The accounting policies set out in Note 4 have been applied in preparing the consolidated financial statements for the year ended March 31, 2011 and the consolidated statement of financial position at April 1, 2010 (the Corporation's date of transition).

In preparing its opening IFRS consolidated statement of financial position, the Corporation has adjusted amounts reported previously in the consolidated statement of financial position prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS as at March 31, 2011 and April 1, 2010 has affected the Corporation's consolidated financial position and consolidated total comprehensive income as at March 31, 2011 is set out in the following tables and the notes that accompany the tables. The transition to IFRS has had no impact on the Corporation's consolidated statement of cash flows.

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

30. Explanation of transition to IFRS (continued)

Reconciliation of equity April 1, 2010

	Foot note	Canadian GAAP	Effect of transition to IFRS	IFRS
			April 1, 2010	
Assets				
Current assets				
Cash and cash equivalents		$324,640	$ -	$324,640
Trade and other receivables		78,239	-	78,239
Prepaid expenses		32,478	-	32,478
Inventories		29,695	-	29,695
Current portion of loans receivable		6,121	-	6,121
Cash and short-term investments held for First Nations		191,696	-	191,696
Total current assets		662,869	-	662,869
Non-current assets				
Restricted cash		199,103	-	199,103
Loans receivable		25,858	-	25,858
Property, plant and equipment	(a)	2,492,286	(222,734)	2,269,552
Goodwill		1,776	-	1,776
Total non-current assets		2,719,023	(222,734)	2,496,289
Total assets		3,381,892	(222,734)	3,159,158
Liabilities and Equity				
Current liabilities				
Trade and other payables	(b)	321,817	(17,760)	304,057
Provisions	(c)	-	8,115	8,115
Due to operators		37,544	-	37,544
Due to Rama First Nation		1,577	-	1,577
Due to the Government of Canada		7,421	-	7,421
Deferred revenues		15,807	-	15,807
Due to First Nations		191,696	-	191,696
Current portion of long-term debt		49,313	-	49,313
Total current liabilities		625,175	(9,645)	615,530
Non-current liabilities				
Long-term debt		186,077	-	186,077
Employee benefits		18,694	-	18,694
Asset retirement obligations	(c)	1,535	(1,535)	-
Total non-current liabilities		206,306	(1,535)	204,771
Total liabilities		831,481	(11,180)	820,301
Equity				
Retained earnings	(a)(b)(c)	2,358,441	(211,554)	2,146,887
Contributed surplus		62,345	-	62,345
Reserves		129,625	-	129,625
Total equity		2,550,411	(211,554)	2,338,857
Total liabilities and equity		$3,381,892	$(222,734)	$3,159,158

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

30. Explanation of transition to IFRS (continued)

Reconciliation of equity March 31, 2011

	Foot note	Canadian GAAP	Effect of transition to IFRS	IFRS
			March 31, 2011	
Assets				
Current assets				
Cash and cash equivalents		$314,572	$ -	$314,572
Trade and other receivables		69,034	-	69,034
Prepaid expenses		29,529	-	29,529
Inventories		18,354	-	18,354
Current portion of loans receivable		5,685	-	5,685
Cash and short-term investments held for First Nations		8,673	-	8,673
Total current assets		445,847		445,847
Non-current assets				
Restricted cash		188,388	-	188,388
Loans receivable		20,033	-	20,033
Property, plant and equipment	(a)	2,402,841	(740,597)	1,662,244
Goodwill		1,776	-	1,776
Total non-current assets		2,613,038	(740,597)	1,872,441
Total assets		3,058,885	(740,597)	2,318,288
Liabilities and Equity				
Current liabilities				
Trade and other payables	(b)	319,685	(23,700)	295,985
Provisions	(c)	-	8,040	8,040
Due to operators		32,219	-	32,219
Due to Rama First Nation		1,422	-	1,422
Due to the Government of Canada		16,054	-	16,054
Deferred revenues		25,831	-	25,831
Due to First Nations		8,673	-	8,673
Current portion of long-term debt		55,885	-	55,885
Total current liabilities		459,769	(15,660)	444,109
Non-current liabilities				
Long-term debt		139,705	-	139,705
Employee benefits		21,252	-	21,252
Asset retirement obligations	(c)	1,553	(1,553)	-
Total non-current liabilities		162,510	(1,553)	160,957
Total liabilities		622,279	(17,213)	605,066
Equity				
Retained earnings	(a)(b)(c)	2,245,256	(723,384)	1,521,872
Contributed surplus		62,345	-	62,345
Reserves		129,005	-	129,005
Total equity		2,436,606	(723,384)	1,713,222
Total liabilities and equity		$3,058,885	$(740,597)	$2,318,288

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

30. Explanation of transition to IFRS (continued)

Reconciliation of comprehensive income for the year ended March 31, 2011

	Foot note	Canadian GAAP	Effect of transition to IFRS	IFRS
		For the year ended March 31, 2011		
Revenues				
Lottery and bingo		$3,320,994	$ -	$3,320,994
Resort casinos	(d)	1,300,308	2,680	1,302,988
OLG slots and casinos	(d)	2,064,498	3,166	2,067,664
		6,685,800	5,846	6,691,646
Expenses				
Lottery and bingo	(f)	2,408,590	(901)	2,407,689
Resort casinos	(e,f,g)	1,408,098	23,821	1,431,919
OLG slots and casinos	(e,f,g)	1,153,834	1,393	1,155,227
		4,970,522	24,313	4,994,835
Income before the undernoted		1,715,278	(18,467)	1,696,811
Other income		29,160	-	29,160
Finance income		3,023	-	3,023
Finance costs	(h)	(11,157)	(363)	(11,520)
Foreign exchange gain		8,435	-	8,435
Other charges	(i)	(5,408)	(493,000)	(498,408)
Net income and comprehensive income		$1,739,331	$(511,830)	$1,227,501

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

30. Explanation of transition to IFRS (continued)

Notes to the reconciliation

a. Property, plant and equipment

In accordance with IFRS, each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is amortized separately. The Corporation performed a thorough review of its capital assets to identify the components of capital assets and assess the impact of componentization. The componentization of property, plant and equipment resulted in a $247,234,000 increase in accumulated amortization at March 31, 2011 (April 1, 2010 - $222,734,000 increase in accumulated amortization and a decrease of retained earnings at the date of transition).

Under IFRS, an impairment loss is recognized if an asset's (CGU's) carrying amount exceeds its recoverable amount, determined as the greater of fair value less costs to sell and value in use based on the net present value of future cash flows. At March 31, 2011, Caesars Windsor's CGU was reduced to its recoverable amount based on the value in use (see Note 12) which resulted in a $493,000,000 reduction to the carrying value under IFRS.

Under IFRS, an entity must suspend capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset. An amount of $363,000 relating to capitalized borrowing costs previously recorded under Canadian GAAP has been expensed which resulted in a reduction to property, plant and equipment (April 1, 2010 - $nil).

The net impact of these adjustments is a reduction to property, plant and equipment of $740,597,000 for the year ended March 31, 2011 (April 1, 2010 - $222,734,000).

b. Trade and other payables

In accordance with IFRS, liabilities related to incentive programs where the customer has the right to receive cash are recognized at fair value, which is the amount due on demand. Under Canadian GAAP, an estimated redemption rate was utilized to measure the liability and corresponding revenue. Accordingly, an increase to trade and other payables was recognized of $2,819,000 (April 1, 2010 - $2,863,000) under IFRS.

In addition, $3,575,000 (April 1, 2010 - $2,787,000) was reclassified from trade and other payables to provisions.

Furthermore, the base amounts of progressive jackpots are not recorded as a liability and a reduction to gaming revenue under IFRS; therefore, the derecognition of the liability resulted in a reduction to trade and other payables of $22,944,000 (April 1, 2010 - $17,836,000) at March 31, 2011.

The net impact of these adjustments is a reduction to trade and other payables of $23,700,000 for the year ended March 31, 2011 (April 1, 2010 - $17,760,000).

c. Provisions

In accordance with IFRS, a provision is a liability of uncertain timing or amount. The Corporation performed a review of trade and other payables and reclassified those items which met the definition of a provision. An amount of $3,575,000 (April 1, 2010 - $2,787,000) was reclassified from trade and other payables.

In addition, legal provisions of $514,000 (April 1, 2010 - $495,000) were recognized for additional recognition and measurement differences under IFRS.

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

30. Explanation of transition to IFRS (continued)

Notes to the reconciliation (continued)

c. Provisions (continued)

Under IFRS, provisions for loss-making executory contracts (onerous contracts) are recognized, resulting in an additional provision in respect of certain of the Corporation's eBingo contracts. Such provisions were not recognized under Canadian GAAP. As such, the Corporation recognized a provision for an onerous contract provision of $2,398,000 (April 1, 2010 - $3,298,000 with a corresponding reduction in retained earnings).

Asset retirement obligations of $1,553,000 (April 1, 2010 - $1,535,000) recorded in other liabilities under Canadian GAAP have been reclassified to provisions under IFRS.

The net impact of these adjustments is an increase to provisions of $8,040,000 for the year ended March 31, 2011 (April 1, 2010 - $8,115,000).

d. Revenue

In accordance with IFRS, liabilities related to incentive programs that provide patrons with a cash redemption alternative are measured at fair value, which is the amount due on demand. Under Canadian GAAP, an estimated redemption rate was utilized to measure the liability and corresponding revenue. These differences increased gaming revenue for the year ended March 31, 2011 in the amount of $44,000. In addition, $160,000 related to incentive programs, previously recognized as a reduction to expenses under Canadian GAAP, has been reclassified to increase revenue for the year ended March 31, 2011.

The base amounts of progressive jackpots are not recorded as a liability in accordance with IFRS; therefore, the derecognition of the liability correspondingly increased gaming revenue in the amount of $5,642,000 for the year ended March 31, 2011.

The net impact of these adjustments is an increase in revenues of $5,846,000 for the year ended March 31, 2011.

e. Expenses – amortization

In accordance with IFRS, each component of property, plant and equipment with a cost that is significant in relation to the total cost of the item is to be amortized separately. The componentization of property, plant and equipment resulted in a $24,500,000 increase in amortization for the year ended March 31, 2011.

f. Expenses – changes in provisions and other accrued expenses

During the year ended March 31, 2011, the following changes relating to legal, insurance and onerous provisions and other accrued expenses were recorded:

- Decrease in legal provisions of $153,000;
- Increase in insurance provisions of $174,000;
- Reduction to the onerous contract provision of $900,000; and
- Increase in other accrued expenses as a result of other IFRS adjustments of $532,000.

The net impact of these adjustments is a reduction to expenses of $347,000 for the year ended March 31, 2011.

Ontario Lottery and Gaming Corporation

Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

30. Explanation of transition to IFRS (continued)

Notes to the reconciliation (continued)

g. Expenses – incentive programs

An amount of $160,000 related to incentive programs, previously recognized as a reduction to expenses under Canadian GAAP, has been reclassified as an increase to revenue for the year ended March 31, 2011 under IFRS.

h. Finance costs

Under IFRS, an entity must suspend capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset. An amount of $363,000 related to borrowing costs previously capitalized under Canadian GAAP has been recorded as finance costs for the year ended March 31, 2011 under IFRS.

i. Other charges – impairment

Under IFRS, an impairment loss is recognized if an asset's (CGU's) carrying amount exceeds its recoverable amount, determined as the greater of fair value less costs to sell and value in use based on the net present value of future cash flows. At March 31, 2011, Caesars Windsor's CGU was reduced to its recoverable amount based on its value in use (Note 12), which resulted in a $493,000,000 reduction to the carrying value under IFRS.

IFRS 1, Exemptions from retrospective application

IFRS 1, First-time Adoption of International Financial Reporting Standards, sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Corporation has applied the following exemptions to its opening statement of financial position dated April 1, 2010:

(a) IAS 23 – Borrowing costs ("IAS 23")

In accordance with IFRS 1, the Corporation has elected to prospectively apply IAS 23 effective April 1, 2010.

(b) IAS 16 – Property, Plant and Equipment

The Corporation has elected to measure the cost of property, plant and equipment at cost as described in Note 12 and (a) above. The Corporation is not electing to utilize the fair value or deemed cost approach available under IFRS 1 transitional elections.

(c) International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 1 – Changes in existing decommissioning, restoration and similar liabilities

In accordance with IFRS 1, the Corporation has elected to evaluate its Asset Retirement Obligations under *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.*

Ontario Lottery and Gaming Corporation
Notes to the Consolidated Financial Statements

Years ended March 31, 2012 and 2011
(tabular amounts in thousands of Canadian dollars)

30. Explanation of transition to IFRS (continued)

IFRS 1, Exemptions from retrospective application (continued)

(d) IFRIC Interpretation 4 – Determining whether an arrangement contains a lease ("IFRIC 4")

In accordance with IFRS 1, the Corporation has elected not to reassess whether an arrangement contains a lease under IFRIC 4 for contracts that were assessed under previous Canadian GAAP. Arrangements entered into before the effective date of Emerging Issues Committee ("EIC") 150 that have not substantially been assessed under EIC 150, were assessed under IFRIC 4, and no additional leases were identified.

(e) IFRS 3 – Business Combinations ("IFRS 3")

In accordance with IFRS 1, the Corporation has elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

(f) Estimates

In accordance with IFRS 1, the Corporation's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The Corporation's IFRS estimates as of April 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Ontario Power Generation Inc.'s ("OPG") management is responsible for the presentation and preparation of the annual consolidated financial statements and Management's Discussion and Analysis ("MD&A").

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the requirements of the Ontario Securities Commission ("OSC"), as applicable. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators and its related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Something is considered material if it is reasonably expected to have a significant impact on the Company's earnings, cash flow, value of an asset or liability, or reputation. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal controls and internal audit, including organizational and procedural controls and internal controls over financial reporting. Our system of internal controls includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and accounting policies, which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

Management, including the President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICOFR"). DC&P is designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. ICOFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with GAAP.

An evaluation of the effectiveness of design and operation of OPG's DC&P and ICOFR was conducted as of December 31, 2011. Accordingly, we, as OPG's President and CEO and CFO, will certify OPG's annual disclosure documents filed with the OSC, which includes attesting to the design and effectiveness of OPG's disclosure controls and procedures and internal control over financial reporting.

(continued on next page)

ONTARIOPOWER
GENERATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Board of Directors, based on recommendations from its Audit and Finance Committee, reviews and approves the consolidated financial statements and the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors, as confirmed by the Audit and Finance Committee, had direct and full access to the Audit and Finance Committee, with and without the presence of management, to discuss their audit and their findings therefrom, as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

TMitchell

Tom Mitchell
President and Chief Executive Officer

March 2, 2012

Donn W. J. Hanbidge
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Ontario Power Generation Inc.

We have audited the accompanying consolidated financial statements of **Ontario Power Generation Inc.**, which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and the consolidated statements of income, cash flows, changes in shareholder's equity and comprehensive income for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Ontario Power Generation Inc.** as at December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Toronto, Canada

March 2, 2012

Ernst & Young LLP

Chartered Accountants,
Licensed Public Accountants

CONSOLIDATED
STATEMENTS OF INCOME

Years Ended December 31 (millions of dollars – except where noted)	**2011**	2010
REVENUE (NOTE 18)	**5,061**	5,367
Fuel expense (NOTE 18)	**754**	900
GROSS MARGIN (NOTE 18)	**4,307**	4,467
EXPENSES (NOTE 18)		
Operations, maintenance and administration	**2,756**	2,913
Depreciation and amortization (NOTE 6)	**723**	688
Accretion on fixed asset removal and nuclear waste management liabilities (NOTE 10)	**702**	660
Earnings on nuclear fixed asset removal and nuclear waste management funds (NOTE 10)	**(509)**	(668)
Property and capital taxes	**51**	77
Restructuring (NOTE 25)	**21**	27
	3,744	3,697
INCOME BEFORE OTHER (GAINS) LOSSES, INTEREST, AND INCOME TAXES	**563**	770
Other (gains) losses (NOTES 4, 16, AND 17)	**(29)**	5
INCOME BEFORE INTEREST AND INCOME TAXES	**592**	765
Net interest expense (NOTE 9)	**165**	176
INCOME BEFORE INCOME TAXES	**427**	589
Income tax expense (recovery) (NOTE 11)		
Current	**(22)**	(67)
Future	**33**	7
	11	(60)
NET INCOME	**416**	649
BASIC AND DILUTED INCOME PER COMMON SHARE (DOLLARS)	**1.62**	2.53
COMMON SHARES OUTSTANDING (MILLIONS)	**256.3**	256.3

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 (millions of dollars)	**2011**	2010
OPERATING ACTIVITIES		
Net income	**416**	649
Adjust for non-cash items:		
Depreciation and amortization (NOTE 6)	**723**	688
Accretion on fixed asset removal and nuclear waste management liabilities (NOTE 10)	**702**	660
Earnings on nuclear fixed asset removal and nuclear waste management funds (NOTE 10)	**(509)**	(668)
Pension and other post employment benefit costs (NOTE 12)	**445**	327
Future income taxes and other accrued charges	**(53)**	(89)
Provision for other liabilities	**(16)**	20
Provision for restructuring (NOTE 25)	**21**	27
Mark-to-market on derivative instruments	**24**	41
Provision for used nuclear fuel and low and intermediate level waste	**55**	43
Regulatory assets and liabilities (NOTE 7)	**(58)**	(233)
Other	**-**	22
	1,750	1,487
Contributions to nuclear fixed asset removal and nuclear waste management funds (NOTE 10)	**(250)**	(264)
Expenditures on nuclear fixed asset removal and nuclear waste management (NOTE 10)	**(172)**	(181)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management (NOTE 10)	**59**	100
Contributions to pension funds (NOTE 12)	**(302)**	(272)
Expenditures on other post employment benefits and supplementary pension plans (NOTE 12)	**(88)**	(82)
Expenditures on restructuring (NOTE 25)	**(13)**	(12)
Net changes to other long-term assets and liabilities	**33**	(6)
Net changes in non-cash working capital balances (NOTE 23)	**(27)**	47
Cash flow provided by operating activities	**990**	817
INVESTING ACTIVITIES		
Investment in fixed and intangible assets (NOTES 6 AND 18)	**(1,145)**	(978)
Net proceeds from sale of fixed assets	**7**	-
Net proceeds from sale of long-term investments (NOTE 4)	**-**	33
Cash flow used in investing activities	**(1,138)**	(945)
FINANCING ACTIVITIES		
Issuance of long-term debt (NOTE 8)	**1,052**	1,160
Repayment of long-term debt (NOTE 8)	**(383)**	(978)
Net (decrease) increase in short-term notes (NOTE 9)	**(145)**	155
Distribution to a third party on behalf of the Shareholder (NOTE 16)	**(14)**	-
Cash flow provided by financing activities	**510**	337
NET INCREASE IN CASH AND CASH EQUIVALENTS	**362**	209
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**280**	71
CASH AND CASH EQUIVALENTS, END OF YEAR	**642**	280

See accompanying notes to the consolidated financial statements

CONSOLIDATED
BALANCE SHEETS

As at December 31 (millions of dollars)	**2011**	2010
ASSETS		
Current assets		
Cash and cash equivalents	**642**	280
Accounts receivable (NOTE 5)	**461**	270
Fuel inventory (NOTE 18)	**655**	734
Prepaid expenses	**27**	42
Income and capital taxes recoverable	**55**	65
Future income taxes (NOTE 11)	**89**	73
Materials and supplies (NOTE 18)	**84**	85
	2,013	1,549
Fixed assets (NOTES 6 AND 18)		
Property, plant and equipment	**21,686**	19,654
Less: accumulated depreciation	**6,611**	6,099
	15,075	13,555
Intangible assets (NOTES 6 AND 18)		
Intangible assets	**363**	345
Less: accumulated amortization	**313**	297
	50	48
Other long-term assets		
Deferred pension asset (NOTE 12)	**1,188**	1,146
Nuclear fixed asset removal and nuclear waste management funds (NOTES 10 AND 18)	**11,898**	11,246
Long-term investments (NOTE 21)	**32**	30
Long-term materials and supplies (NOTE 18)	**380**	400
Regulatory assets (NOTE 7)	**1,457**	1,559
Long-term accounts receivable and other assets	**43**	44
	14,998	14,425
	32,136	29,577

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS

As at December 31 (millions of dollars)	**2011**	2010
LIABILITIES		
Current liabilities		
Accounts payable and accrued charges	**836**	762
Long-term debt due within one year (NOTE 8)	**413**	385
Short-term notes payable (NOTE 9)	**10**	155
Deferred revenue due within one year	**12**	12
	1,271	1,314
Long-term debt (NOTE 8)	**4,484**	3,843
Other long-term liabilities		
Fixed asset removal and nuclear waste management (NOTES 10 AND 18)	**14,219**	12,704
Other post employment benefits and supplementary pension plans (NOTE 12)	**2,077**	1,908
Long-term accounts payable and accrued charges	**542**	525
Deferred revenue	**177**	152
Future income taxes (NOTE 11)	**819**	798
Regulatory liabilities (NOTE 7)	**154**	248
	17,988	16,335
Shareholder's equity		
Common shares (NOTE 15)	**5,126**	5,126
Retained earnings	**3,426**	3,024
Accumulated other comprehensive loss	**(163)**	(69)
Attributable to the Shareholder of Ontario Power Generation Inc.	**8,389**	8,081
Non-controlling interest (NOTE 24)	**4**	4
	8,393	8,085
	32,136	29,577

Commitments and Contingencies (NOTES 8, 12, 13, AND 16)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Jake Epp.

Honourable Jake Epp
Chairman

M. George Lewis
Director

CONSOLIDATED
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Years Ended December 31 (millions of dollars)	**2011**	2010
Common shares (NOTE 15)	**5,126**	5,126
Retained earnings		
Balance at beginning of year	**3,024**	2,375
Net income	**416**	649
Distribution to a third party on behalf of the Shareholder (NOTE 16)	**(14)**	-
Balance at end of year	**3,426**	3,024
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of year	**(69)**	(24)
Other comprehensive loss for the year	**(94)**	(45)
Balance at end of year	**(163)**	(69)
Attributable to the Shareholder of Ontario Power Generation Inc.	**8,389**	8,081
Non-controlling interest (NOTE 24)	**4**	4
	8,393	8,085

See accompanying notes to the consolidated financial statements

CONSOLIDATED
STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31 (millions of dollars)	**2011**	2010
Net income	**416**	649
Other comprehensive loss, net of income taxes		
Net loss on derivatives designated as cash flow hedges[1]	**(100)**	(39)
Reclassification to income of losses (gains) on derivatives designated as cash flow hedges[2]	**6**	(6)
Other comprehensive loss for the year	**(94)**	(45)
Comprehensive income	**322**	604

1 Net of income tax recoveries of $20 million and $1 million for the years ended December 31, 2011 and 2010, respectively.

2 Net of income tax expense of $1 million and income tax recoveries of $4 million for the years ended December 31, 2011 and 2010, respectively.

See accompanying notes to the consolidated financial statements

NOTES TO THE
CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2011 and 2010

NOTE 1 DESCRIPTION OF BUSINESS

Ontario Power Generation Inc. ("OPG" or the "Company") was incorporated on December 1, 1998 pursuant to the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province"). OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG's focus is on the efficient generation and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner.

NOTE 2 BASIS OF PRESENTATION

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as determined in Part V of the Canadian Institute of Chartered Accountants Handbook - Accounting ("CICA Handbook") and are presented in Canadian dollars. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of OPG and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. In accordance with CICA Handbook Accounting Guideline 15, *Consolidation of Variable Interest Entities*, the applicable amounts in the accounts of the Nuclear Waste Management Organization ("NWMO") are included in OPG's consolidated financial statements. All significant intercompany transactions have been eliminated on consolidation.

Certain of the 2010 comparative amounts have been reclassified from financial statements previously presented to conform to the 2011 consolidated financial statement presentation.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments. These securities are valued at the lower of cost and market.

Interest earned on cash and cash equivalents and short-term investments of $6 million (2010 - $2 million) at an average effective rate of 1.0 percent (2010 - 0.7 percent) is offset against interest expense in the consolidated statements of income.

Sales of Accounts Receivable

Asset securitization involves selling assets such as accounts receivable to independent entities or trusts, which buy the receivables and then issue interests in them to investors. These transactions are accounted for as sales, given that control has been surrendered over these assets in return for net cash consideration. For each transfer, the excess of the carrying value of the receivables transferred over the estimated fair value of the proceeds received is reflected as a loss on the date of the transfer, and is included in net interest expense. The carrying value of the interests transferred is allocated to accounts receivable sold or interests retained according to their relative fair values on the day the transfer is made. Fair value is determined based on the present value of future cash flows. Cash flows are projected using OPG's best estimates of key assumptions, such as discount rates, weighted average life of accounts receivable and credit loss ratios.

As part of the sales of accounts receivable, certain financial assets are retained and consist of interests in the receivables transferred. Any retained interests held in the receivables are accounted for at cost. The receivables are transferred on a fully serviced basis and do not create a servicing asset or liability.

Inventories

Fuel inventory is valued at the lower of weighted average cost and net realizable value.

Materials and supplies are valued at the lower of average cost and net realizable value. The determination of net realizable value of materials and supplies takes into account various factors including the remaining useful life of the related facilities in which the materials and supplies are expected to provide future benefits.

Fixed and Intangible Assets and Depreciation and Amortization

Property, plant and equipment, and intangible assets are recorded at cost. Interest costs incurred during construction and development are capitalized as part of the cost of the asset based on the interest rate on OPG's long-term debt. Expenditures for replacements of major components are capitalized.

Depreciation and amortization rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are charged to operations, maintenance and administration ("OM&A") expenses. Repairs and maintenance are also expensed when incurred.

Fixed assets are depreciated on a straight-line basis except for computers, and transport and work equipment, which are mostly depreciated on a declining balance basis. Intangible assets, which consist of major application software, are amortized on a straight-line basis. As at December 31, 2011, the depreciation and amortization periods of fixed and intangible assets are as follows:

Nuclear generating stations and major components	15 to 59 years[1]
Thermal generating stations and major components	25 to 48 years[2]
Hydroelectric generating stations and major components	25 to 100 years
Administration and service facilities	10 to 50 years
Computers, and transport and work equipment assets - declining balance	9% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

[1] As at December 31, 2011, the end of station life for depreciation purposes for the Darlington, Pickering A and B, and Bruce A and B nuclear generating stations ranges between 2014 and 2051. Major components are depreciated over the lesser of the station life and the life of the components. Changes to the end of station life for depreciation purposes are described under the heading *Changes in Accounting Policies and Estimates*.

[2] Lambton units 1 and 2 and Nanticoke units 3 and 4 were fully depreciated by September 30, 2010. Nanticoke units 1 and 2 were fully depreciated by December 31, 2011.

Impairment of Fixed Assets

OPG evaluates its property, plant and equipment for impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the net carrying amount of assets. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available.

Rate Regulated Accounting

The *Ontario Energy Board Act, 1998* and *Ontario Regulation 53/05* provide that OPG receives regulated prices for electricity generated from the baseload hydroelectric facilities and all of the nuclear facilities that it operates. Beginning April 1, 2008, OPG's regulated prices for these regulated facilities are determined by the Ontario Energy Board ("OEB").

The OEB is a self-funding Crown corporation. Its mandate and authority come from the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province through the Minister of Energy. It regulates market participants in the Province's natural gas and electricity industries and carries out its regulatory functions through public hearings and other more informal processes such as consultations.

Canadian GAAP recognizes that rate regulation can create economic benefits and obligations that are required by the regulator to be obtained from, or settled with, the ratepayers. When the Company assesses that there is sufficient assurance that incurred costs will be recovered in the future, those costs are deferred and reported as a regulatory asset. When the OEB provides recovery through current rates for costs that have not been incurred, and that are required to be refunded to the ratepayers, the Company records a regulatory liability.

Certain of the regulatory assets and liabilities recognized by the Company relate to variance and deferral accounts authorized by the OEB, including those authorized pursuant to *Ontario Regulation 53/05*. Variance accounts capture differences between actual costs and revenues, and the corresponding forecast amounts approved in the setting of regulated prices. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of *Ontario Regulation 53/05* and the OEB's decisions. These estimates and assumptions made in the interpretation of *Ontario Regulation 53/05* and the OEB's decisions are reviewed as part of the OEB's regulatory process.

Regulatory asset and liability balances for variance and deferral accounts approved by the OEB for inclusion in regulated prices are amortized based on approved recovery periods. Disallowed balances, including associated interest, are charged to operations in the period that the OEB's decision is issued. Interest is applied to regulatory balances as prescribed by the OEB, in order to recognize the cost of financing amounts to be recovered from, or repaid to, ratepayers.

Certain assets and liabilities arising from rate regulation have specific guidance under a primary source of Canadian GAAP that applies only to the particular circumstances described therein, including those arising under Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3465, *Income Taxes*, and Section 3475, *Disposal of Long-Lived Assets and Discontinued Operations* of the CICA Handbook. Other assets and liabilities arising from rate regulation do not have specific guidance under a primary source of Canadian GAAP. Therefore, Section 1100, *Generally Accepted Accounting Principles* ("Section 1100") of the CICA Handbook directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Section 1000, *Financial Statement Concepts* of the CICA Handbook. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that its other assets and liabilities arising from rate regulation qualify for recognition under Canadian GAAP as this recognition is consistent with the United States Financial Accounting Standards Board Accounting Standards Codification Topic 980, *Regulated Operations*.

See Notes 7, 10, 11, and 12 to these consolidated financial statements for additional disclosures related to the OEB's decisions, regulatory assets and liabilities, and rate regulated accounting.

Investments in OPG Ventures

In accordance with CICA Handbook Accounting Guideline 18, *Investment Companies* ("AcG-18"), investments owned by the Company's wholly owned subsidiary OPG Ventures Inc. ("OPGV") are recorded at fair value, and changes to the fair value of the investments are included in revenue in the period in which the change occurs. The fair values of these investments are estimated using a methodology that is appropriate in light of the nature, facts and circumstances of the respective investments and considers reasonable data and market inputs, assumptions and estimates. See Notes 13 and 21 to these consolidated financial statements for additional disclosures related to OPG's investments in OPGV.

Fixed Asset Removal and Nuclear Waste Management Liabilities

OPG recognizes asset retirement obligations for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG estimates both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liabilities for nuclear fixed asset removal and nuclear waste management ("Nuclear Liabilities") are increased by the present value of the variable cost portion for the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Variable expenses relating to low and intermediate level nuclear waste are charged to OM&A expenses. Variable expenses relating to the management and storage of nuclear used fuel are charged to fuel expense. The liabilities may also be adjusted due to any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liabilities, a gain or loss would be recorded.

Accretion arises because the liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets. The capitalized cost is depreciated over the remaining useful life of the related fixed assets and is included in depreciation and amortization expense.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Pursuant to the Ontario Nuclear Funds Agreement ("ONFA") between OPG and the Province, OPG established a Used Fuel Segregated Fund ("Used Fuel Fund") and a Decommissioning Segregated Fund ("Decommissioning Fund") (together the "Nuclear Funds"). The Used Fuel Fund is intended to fund expenditures associated with the management of highly radioactive used nuclear fuel bundles, while the Decommissioning Fund was established to fund expenditures associated with nuclear fixed asset removal and the disposal of low and intermediate level nuclear waste materials. OPG maintains the Nuclear Funds in third party custodial accounts that are segregated from the rest of OPG's assets.

The investments in the Nuclear Funds and the corresponding payables/receivables to/from the Province are classified as held-for-trading. The Nuclear Funds are measured at fair value based on the bid prices of the underlying securities with gains and losses recognized in net income.

Revenue Recognition

All of OPG's electricity generation is offered into the real-time energy spot market administered by the Independent Electricity System Operator ("IESO").

Revenue Recognition – Regulated Generation

Effective March 1, 2011, energy revenue generated from the nuclear facilities owned and operated by OPG is based on a regulated price of 5.59¢/kWh pursuant to the OEB's decision and order issued in March 2011 and April 2011, respectively, on the application for new regulated prices filed by OPG in May 2010. The nuclear regulated price includes a rate rider of 0.43¢/kWh for the recovery of approved nuclear variance and deferral account balances based on recovery periods authorized by the OEB. Effective March 1, 2011, energy revenue generated from OPG's regulated hydroelectric facilities receives a regulated price of 3.41¢/kWh, pursuant to the OEB's decision and order. The regulated hydroelectric regulated price is net of a negative rider of -0.17¢/kWh reflecting the repayment of the approved regulated hydroelectric variance account balances. These rate riders will remain in effect until December 31, 2012.

In its March 2011 decision, the OEB also approved the continuation of the existing hydroelectric incentive mechanism ("HIM") but determined that a portion of the resulting net revenues should be shared with ratepayers. As a result, the OEB established the Hydroelectric Incentive Mechanism Variance Account ("HIM Variance Account"). Under the existing mechanism, OPG receives the approved regulated price for the actual monthly average net energy production per hour from the regulated hydroelectric facilities, and in the hours where OPG's actual net energy production in Ontario is greater or less than the average net volume in the month, OPG's hydroelectric revenues are adjusted by the difference between the average hourly net volume and OPG's actual net energy production from the regulated hydroelectric facilities multiplied by the spot market price. The HIM Variance Account captures the net revenues from the HIM that are required to be returned to ratepayers.

For the period from April 1, 2008 to February 28, 2011, energy revenue generated from the nuclear facilities owned and operated by OPG was based on a regulated price of 5.50¢/kWh, including a rate rider of 0.20¢/kWh for the recovery of the approved nuclear variance and deferral account balances, pursuant to the OEB's 2008 decision and order. Pursuant to that decision and order, effective April 1, 2008, the revenue from the regulated hydroelectric generation was based on a regulated price of 3.67¢/kWh, which included the recovery of the approved regulated hydroelectric variance accounts and, effective December 1, 2008, was subject to the HIM.

The regulated prices established by the OEB in effect prior to, and effective March 1, 2011 were determined using a forecast cost of service methodology. The forecast cost of service methodology establishes regulated prices based on a revenue requirement taking into account a forecast of production and operating costs for the regulated facilities, and a return on rate base. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed and intangible assets and an allowance for working capital. The regulated prices effective March 1, 2011 were determined by the OEB based on an approved 24-month revenue requirement of $6.7 billion.

Revenue Recognition – Unregulated Generation and Other Revenue

Electricity generated from OPG's generating assets that are unregulated receives the Ontario electricity spot market price, except where a cost recovery or an energy supply agreement is in place.

The Lambton and Nanticoke generating stations are subject to a contingency support agreement with the Ontario Electricity Financial Corporation ("OEFC"). The agreement was put in place to enable OPG to recover the costs of those coal-fired generating stations following implementation of OPG's CO_2 emissions reduction strategy. Production from the Lennox generating station was subject to a Lennox Generating Station Agreement ("LGSA") with the Ontario Power Authority ("OPA") for the period from January 1, 2011 to December 31, 2011, which has been extended to June 30, 2012.

Generation from the Lac Seul and Ear Falls generating stations, Healey Falls generating station, and the Sandy Falls, Wawaitin, Lower Sturgeon, and Hound Chute generating stations are subject to a Hydroelectric Energy Supply Agreement ("HESA").

OPG also sells into, and purchases from, interconnected markets of other provinces and the U.S. northeast and midwest. All contracts that are not designated as hedges are recorded in the consolidated balance sheets at market value with gains or losses recorded in the consolidated statements of income. Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income. Accordingly, power purchases of $69 million were netted against revenue in 2011 and 2010.

OPG derives non-energy revenue under the terms of a lease arrangement and related agreements with Bruce Power L.P. related to the Bruce nuclear generating stations. This includes lease revenue and revenue for engineering analysis and design, technical and ancillary services. The minimum lease payments are recognized in revenue on a straight-line basis over the term of the lease.

OPG also earns revenue from its joint venture share of the Brighton Beach Power Limited Partnership ("Brighton Beach") related to an energy conversion agreement between Brighton Beach and Shell Energy North America (Canada) Inc. It also earns revenue from its 50 percent share of the results of the Portlands Energy Centre ("PEC") gas-fired generating station, which is co-owned with TransCanada Energy Ltd. In addition, non-energy revenue includes isotope sales and real estate rentals. Revenues from these activities are recognized as services are provided or as products are delivered.

Financial Instruments

Financial assets are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, or available-for-sale, and financial liabilities are classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading, are measured at amortized cost. Financial assets available-for-sale are measured at fair value with unrealized gains and losses due to fluctuations in fair value recognized in accumulated other comprehensive income ("AOCI"). Financial assets purchased and sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a trade-date basis. All derivatives, including embedded derivatives that must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement* ("Section 3855") permits designation of any financial instrument as held-for-trading (the fair value option) upon initial recognition. This designation by OPG requires that the financial instrument be reliably measurable, and eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities.

In accordance with CICA Handbook Section 3862, *Financial Instruments - Disclosures*, OPG categorizes its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measuring the financial instruments. The fair value hierarchy has three levels. Fair value of assets and liabilities included in Level 1 is determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data.

Derivatives and Hedges

CICA Handbook Section 3865, *Hedges* specifies the criteria under which hedge accounting can be applied and how hedge accounting is to be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in AOCI are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. The fair value of such derivative instrument is included in AOCI on a net of tax basis and changes to the fair value are recorded on the consolidated statements of comprehensive income. When a derivative hedging relationship is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are recognized in the current period's consolidated statement of income.

OPG is exposed to changes in market interest rates on debt expected to be issued in the future. OPG uses interest rate derivative contracts to hedge this exposure. Gains and losses on interest rate hedges are recorded as an adjustment to interest expense for the debt being hedged. Gains and losses that do not meet the effectiveness criteria are recorded in net income in the period incurred.

Some of OPG's unregulated generation is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. All derivative contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in the Other category revenue (refer to Note 18).

OPG utilizes emission reduction credits ("ERCs") and allowances to manage emissions within the prescribed regulatory limits. ERCs are purchased from trading partners in Canada and the United States. Emission allowances are obtained from the Province and purchased from trading partners in Ontario. The cost of ERCs and allowances is held in inventory and charged to OPG's operations at average cost as part of fuel expense, as required.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at year end exchange rates. Any resulting gain or loss is reflected in revenue.

Research and Development

Research and development costs are charged to operations in the year incurred. Research and development costs incurred to discharge long-term obligations such as the nuclear waste management liabilities, for which specific provisions have already been made, are charged to the related liability.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, group life insurance, health care and long-term disability benefits. Effective January 1, 2009, similar post employment benefit programs were established by the NWMO. Information on the Company's post employment benefit programs is presented on a consolidated basis.

OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. The obligations for pension and other post retirement benefit costs are determined using the projected benefit method pro-rated on service. The obligation for long-term disability benefits is determined using the projected benefit method on a terminal basis. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions, experience gains or losses, salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by an independent actuary using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Two critical assumptions - discount rate and inflation - are important elements in the determination of benefit costs and obligations. In addition, the expected return on assets is a critical assumption in the determination of registered pension plan costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality, and employee turnover are evaluated periodically by management in consultation with an independent actuary. During the evaluation process, the assumptions are updated to reflect past experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors, and in accordance with Canadian GAAP, the impact of these differences is accumulated and amortized over future periods.

The discount rates used by OPG in determining projected benefit obligations and the costs for the Company's employee benefit plans are based on representative AA corporate bond yields. The respective discount rates enable OPG to calculate the present value of the expected future cash flows on the measurement date. A lower discount rate increases the present value of benefit obligations and increases benefit plan costs. The expected rate of return on plan assets is based on current and expected asset allocation, as well as the long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

Pension fund assets include equity securities and corporate and government debt securities, real estate and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining the amortization of actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs arising from pension and OPEB plan amendments are amortized on a straight-line basis over the expected average remaining service life to full eligibility of the employees covered by the plan. Due to the long-term nature of post employment liabilities, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets, is amortized over the expected average remaining service life, since OPG expects to realize the associated economic benefit over that period.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Taxes

Under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income and, up to June 30, 2010, capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), as modified by regulations made under the *Electricity Act, 1998* and related regulations. This effectively results in OPG paying taxes similar to what would be imposed under the federal and Ontario tax acts.

OPG follows the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period the change is substantively enacted. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is established. In accordance with CICA Handbook Section 3465, *Income Taxes*, OPG recognizes future income taxes associated with its rate regulated operations and records an offsetting regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

OPG makes payments in lieu of property tax on its nuclear and thermal generating assets to the OEFC, and also pays property taxes to municipalities.

OPG pays charges on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are included in fuel expense.

Changes in Accounting Policies and Estimates

Business Combinations, Consolidated Financial Statements, and Non-controlling Interests

Effective January 1, 2011, OPG adopted the CICA Handbook Section 1582, *Business Combinations* ("Section 1582"), Section 1601, *Consolidated Financial Statements* ("Section 1601"), and Section 1602, *Non-controlling Interests* ("Section 1602"). Section 1582 specifies a number of changes, including an expanded definition of a business, a requirement to measure all business acquisitions at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. These standards shall be applied prospectively to business combinations whose acquisition date is on or after the date of adoption. As a result of adopting Section 1602, the Company has reclassified its non-controlling interests as a separate component of equity. The adoption of Section 1582 and Section 1601 did not have a material impact on the Company's consolidated financial statements as at and for the year ended December 31, 2011.

Depreciation of Long-Lived Assets

The accounting estimates related to the depreciation of long-lived assets require significant management judgment to assess the appropriate useful lives of OPG's long-lived assets, including consideration of various technological and other factors.

As a result of its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations, effective September 2009, OPG revised the end of life dates for these units to October 2010 from December 2014. This change in estimate was accounted for on a prospective basis and increased depreciation expense by $29 million in 2010. In 2011, consistent with Ontario's Long-Term Energy Plan (the "Energy Plan") released in November 2010 and Supply Mix Directive issued by the OPA in February 2011, OPG has revised the end of life dates for two additional units at the Nanticoke generating station, for the purposes of calculating depreciation, to December 2011 from December 2014. This change in estimate was accounted for on a prospective basis and increased depreciation expense by $18 million in 2011. On December 31, 2011, these two units at the Nanticoke generating station were removed from service.

The service life of the Bruce A nuclear generating station, for the purposes of calculating depreciation, was extended from 2037 to 2042 to reflect the expected operating period for the refurbished units at the generating station. The life extension is expected to decrease depreciation expense by $5 million annually commencing January 2012, excluding the impact of the adjustment to the Nuclear Liabilities recorded in December 2011, which is discussed in the following section.

Liabilities for Fixed Asset Removal and Nuclear Waste Management

In February 2010, OPG announced its decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station. Accordingly, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended from 2019 to 2051. The extension of service life also impacted the assumptions for OPG's Nuclear Liabilities primarily due to cost increases related to additional used fuel bundles, partially offset by a decrease in the liability for decommissioning, resulting from the change in the service life assumptions. The net increase in the liabilities was $293 million, using a discount rate of 4.8 percent. The increase in liabilities was reflected with a corresponding increase in the fixed assets balance in the first quarter of 2010. As a result of these changes, OPG's depreciation expense decreased by $135 million in 2010.

The most recent update of the estimate for the Nuclear Liabilities was performed as at December 31, 2011 and resulted in a $934 million increase to OPG's liabilities, and a corresponding increase in the carrying value of the nuclear generating stations to which the liabilities relate. The change in the liabilities reflects the results of a comprehensive process undertaken to update the baseline cost estimates for each of OPG's nuclear waste management and decommissioning programs. OPG follows a standard process that requires such an update on a five-year cyclical basis unless business circumstances and assumptions require an earlier update process. This update to the Nuclear Liabilities results from the ONFA Reference Plan update process.

The baseline cost estimates included cash flows for decommissioning nuclear stations for approximately 40 years after station shut down and to 2071 for placement of used fuel into the long-term disposal repository followed by extended monitoring. The increase in the Nuclear Liabilities was primarily due to higher fixed costs associated with the Used Fuel Storage, Low and Intermediate Level Waste ("L&ILW") Disposal and L&ILW Storage programs, discounted using the current credit-adjusted risk-free rate. The change in estimate is expected to increase depreciation and accretion expenses in 2012 by $148 million and $32 million, respectively.

The net incremental undiscounted estimated cash flows for the Nuclear Liabilities resulting from the update process were discounted using the current credit-adjusted risk-free rate of 3.4 percent. A ten basis points (0.1 percent) increase or decrease in this discount rate will increase or decrease the carrying value of the liability by approximately $8 million or $9 million, respectively.

Restructuring

As a result of the decision to close two coal-fired units at each of the Lambton and Nanticoke generating stations in 2010 and two additional units at the Nanticoke generating station on December 31, 2011, OPG recorded restructuring charges of $21 million in 2011 (2010 - $27 million) related to severance costs. The severance costs were incurred in accordance with collective bargaining agreements with the Society of Energy Professionals and the Power Workers' Union.

Liability for Non-Nuclear Fixed Asset Removal

As a result of the review completed in 2011, the liability estimate for non-nuclear fixed asset removal was reduced by $5 million. The reduction reflected an increase in the expected cost recovery for station equipment and materials, largely offset by an increase in the demolition estimate. As a result of the liability adjustment, OPG recorded a corresponding reduction to the fixed asset balance of $2 million and a net gain of $3 million as at December 31, 2011. The gain has been recorded as other (gains) losses in the Thermal segment and Other category consistent with the segment classification of the stations.

Future Changes in Accounting Policy

OPG previously intended to adopt International Financial Reporting Standards ("IFRS") as of January 1, 2012. In December 2011, OPG decided to report under the United States generally accepted accounting principles ("US GAAP") beginning January 1, 2012.

In January 2012, OPG filed with and received approval from the Ontario Securities Commission for exemptive relief from the requirements of Section 3.2 of National Instrument 52-107, *Acceptable Accounting Policies and Auditing Standards*, which would otherwise require OPG to file its consolidated financial statements based on IFRS. The exemption allows OPG to file consolidated financial statements based on US GAAP as of January 1, 2012 without becoming a Securities and Exchange Commission registrant, or issuing public debt. The exemption applies to the financial years that begin on or after January 1, 2012 but before January 1, 2015. OPG is required to obtain the OEB's approval to use US GAAP for regulatory purposes in its next application for new regulated prices, which OPG plans to file on the basis of US GAAP in the second quarter of 2012.

OPG is in the process of determining the quantitative impact of transitioning to US GAAP. OPG will publish its first consolidated financial statements prepared in accordance with US GAAP as at and for the three months ending March 31, 2012, and for the corresponding comparative period. The transitional balance sheet as at January 1, 2011 will be disclosed in the March 31, 2012 interim consolidated financial statements.

NOTE 4 INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

OPG classified its Asset Backed Commercial Paper ("ABCP") for the purposes of measurement as held-for-trading. Fair value was determined based on a discounted cash flow model, and OPG classified its investment in ABCP as Level 3 in the fair value hierarchy disclosures (Note 13). In 2010, OPG sold its ABCP holdings for $33 million and recognized a loss of $3 million in 2010 in other (gains) losses.

NOTE 5 SALE OF ACCOUNTS RECEIVABLE

In October 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to the Company is generally limited to its income earned on the receivables.

OPG reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with the CICA Handbook Accounting Guideline 12, *Transfer of Receivables*. In accordance with this Guideline, the proceeds of each sale to the trust were deemed to be the cash received from the trust, net of the undivided co-ownership interest retained by the Company. In December 2011, in accordance with the receivable purchase agreement, OPG reduced the securitized receivable balance from $250 million to $50 million. As at December 31, 2011, the securitized receivable balance was $50 million (2010 - $250 million). The current securitization agreement extends to August 31, 2013 with a commitment of $250 million.

For 2011, OPG has recognized interest expense of $4 million (2010 - $4 million) on such sales at an average cost of funds of 1.9 percent (2010 - 1.5 percent).

The accounts receivable reported and securitized by the Company are as follows:

	Principal Amount of Receivables as at December 31		Average Balance of Receivables for the year ended December 31	
(millions of dollars)	**2011**	2010	**2011**	2010
Total receivables portfolio[1]	**375**	377	**369**	379
Receivables sold	**50**	250	**233**	250
Receivables retained	**325**	127	**136**	129
Average cost of funds			**1.9%**	1.5%

[1] Amount represents receivables outstanding, including receivables that have been securitized, which the Company continues to service.

An immediate 10 percent or 20 percent adverse change in the discount rate would not have a material effect on the current fair value of the retained interest. There were no credit losses for the years ended December 31, 2011 and 2010.

Details of cash flows from securitizations for the years ended December 31 are as follows:

(millions of dollars)	**2011**	2010
Collections reinvested in revolving sales[1]	**2,800**	2,995
Cash flows from retained interest	**1,627**	1,548

[1] Given the revolving nature of the securitization, the cash collections received on the receivables securitized are immediately reinvested in additional receivables resulting in no further cash proceeds to the Company over and above the securitized amount. The amounts reflect the total of twelve monthly amounts.

NOTE 6 FIXED AND INTANGIBLE ASSETS AND DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the years ended December 31 consists of the following:

(millions of dollars)	2011	2010
Depreciation	**534**	571
Amortization of intangible assets	**15**	16
Amortization of regulatory assets and liabilities (NOTE 7)	**174**	101
	723	688

Fixed assets as at December 31 consist of the following:

(millions of dollars)	2011	2010
Property, plant and equipment		
Nuclear generating stations	**8,254**	7,220
Regulated hydroelectric generating stations	**4,538**	4,474
Unregulated hydroelectric generating stations	**4,096**	4,020
Thermal generating stations	**1,433**	1,424
Other fixed assets	**1,048**	1,039
Construction in progress	**2,317**	1,477
	21,686	19,654
Less: accumulated depreciation		
Generating stations	**6,290**	5,819
Other fixed assets	**321**	280
	6,611	6,099
	15,075	13,555

Intangible assets as at December 31 consist of the following:

(millions of dollars)	2011	2010
Intangible assets		
Nuclear generating stations	**101**	93
Unregulated hydroelectric generating stations	**6**	6
Thermal generating stations	**2**	2
Other intangible assets	**244**	236
Development in progress	**10**	8
	363	345
Less: accumulated amortization		
Generating stations	**87**	77
Other intangible assets	**226**	220
	313	297
	50	48

Interest capitalized to construction and development in progress at an average rate of five percent during 2011 (2010 - six percent) was $86 million (2010 - $76 million).

NOTE 7 REGULATORY ASSETS AND LIABILITIES

The OEB's decision on OPG's regulated prices issued in 2008 authorized certain variance and deferral accounts effective April 1, 2008, including those authorized pursuant to *Ontario Regulation 53/05*, a regulation under the *Ontario Energy Board Act, 1998*. In that decision the OEB also ruled on the disposition of the balances previously recorded by OPG in variance and deferral accounts as at December 31, 2007 pursuant to *Ontario Regulation 53/05*. The OEB's decisions issued in 2009 addressed the treatment of variance and deferral accounts for the period after December 31, 2009, established the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account effective January 1, 2010, and, in response to OPG's motion to review and vary the part of the OEB's 2008 decision pertaining to the treatment of tax losses and their use for mitigation, authorized the Tax Loss Variance Account, effective April 1, 2008. Pursuant to the above decisions, during the period from January 1, 2010 to February 28, 2011, the Company recorded additions to and amortized the approved balances in the variance and deferral accounts as authorized by the OEB.

In its March 2011 decision and April 2011 order, the OEB approved OPG's request for the disposition of variance and deferral account balances as at December 31, 2010 without adjustments. During the period from March 1 to December 31, 2011, the Company amortized these approved balances based on recovery periods authorized by the OEB. Any shortfall or over-recovery of the approved variance and deferral account balances due to differences between actual and forecast production is recorded in the Nuclear and Hydroelectric Deferral and Variance Over/Under Recovery Variance Accounts and will be collected from, or refunded to, ratepayers following OPG's next application to the OEB. In its next application to the OEB, OPG plans to seek recovery of regulatory balances recorded subsequent to December 31, 2010.

In its March 2011 decision the OEB also authorized the continuation of previously existing variance and deferral accounts as proposed by OPG, with the exception of the Nuclear Fuel Cost Variance Account, which has been discontinued effective March 1, 2011. The OEB also established the Hydroelectric Surplus Baseload Generation ("SBG") Variance Account and the HIM Variance Account effective March 1, 2011. The Hydroelectric SBG Variance Account captures the financial impact of foregone production at OPG's regulated hydroelectric facilities due to SBG conditions. The HIM Variance Account captures the net revenues from the HIM that are required to be returned to ratepayers. During the period from March 1 to December 31, 2011, the Company recorded additions to the variance and deferral accounts as authorized by the OEB's March 2011 decision.

During the period from March 1 to December 31, 2011, the Company also recorded additions to the Pension and OPEB Cost Variance Account, which was established for the period from March 1, 2011 to December 31, 2012 by the decision and order issued by the OEB in June 2011 in granting OPG's motion to review and vary the OEB's March 2011 decision, as it relates to pension and OPEB costs.

During the year ended December 31, 2011, OPG recorded interest on outstanding regulatory balances at the interest rate of 1.47 percent per annum prescribed by the OEB. The interest rate fluctuated in the range of 0.55 percent to 1.20 percent per annum during the year ended December 31, 2010.

The regulatory assets and liabilities recorded as at December 31 were as follows:

(millions of dollars)	**2011**	2010
Regulatory assets		
Future Income Taxes (NOTE 11)	**692**	711
Bruce Lease Net Revenues Variance Account	**196**	250
Tax Loss Variance Account	**425**	492
Pension and OPEB Cost Variance Account	**96**	–
Nuclear Liabilities Deferral Account	**22**	39
Other	**26**	67
Total regulatory assets	**1,457**	1,559
Regulatory liabilities		
Nuclear Development Variance Account	**55**	111
Hydroelectric Water Conditions Variance Account	**41**	70
Income and Other Taxes Variance Account	**49**	40
Other	**9**	27
Total regulatory liabilities	**154**	248

The changes in the regulatory assets and liabilities during 2011 and 2010 were as follows:

(millions of dollars)	Future Income Taxes	Bruce Lease Net Revenues Variance	Tax Loss Variance	Pension and OPEB Cost Variance	Nuclear Liabilities Deferral	Nuclear Development Variance	Hydroelectric Water Conditions Variance	Income and Other Taxes Variance	Other (net)
Regulatory assets (liabilities), January 1, 2010	592	328	295	–	86	(55)	(55)	(21)	54
Change during the year	119	(81)	194	–	–	(50)	(14)	(19)	34
Interest	–	3	3		1	(1)	(1)	–	–
Amortization during the year	–	–	–	–	(48)	(5)	–	–	(48)
Regulatory assets (liabilities), December 31, 2010	711	250	492	–	39	(111)	(70)	(40)	40
Change during the year	(19)	56	33	95	–	7	(2)	(26)	13
Interest	–	3	7	1	1	(1)	(1)	(1)	–
Amortization during the year	–	(113)	(107)	–	(18)	50	32	18	(36)
Regulatory assets (liabilities), December 31, 2011	**692**	**196**	**425**	**96**	**22**	**(55)**	**(41)**	**(49)**	**17**

Future Income Taxes

In accordance with the CICA Handbook, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. In addition, OPG is required to recognize a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers. OPG recorded a reduction of $19 million to the regulatory asset for future income taxes during the year ended December 31, 2011 (2010 - an increase of $119 million).

Bruce Lease Net Revenues Variance Account

As per *Ontario Regulation 53/05*, OPG is required to include the difference between OPG's revenues and costs associated with its ownership of the two nuclear stations on lease to Bruce Power L.P. in the determination of the regulated prices for production from OPG's regulated nuclear facilities. The OEB established a variance account that captures differences between the forecast of OPG's revenues and costs associated with the Bruce generating stations that are included in the approved regulated nuclear prices, and the actual amounts.

During 2011, OPG recorded a net increase of $59 million, including $3 million of interest (2010 - a decrease of $78 million, net of $3 million of interest) to the regulatory asset for the variance account. The net increase during 2011 included $48 million related to lower than forecast earnings from the Nuclear Funds related to the Bruce generation stations, which was recognized as an increase to the earnings from the Nuclear Funds, and $30 million for lower than forecast revenues related to the Bruce lease agreement ("Bruce Lease") and related agreements including the impact of the derivative embedded in the Bruce Lease (refer to Note 13), which was recognized as an increase to revenue. These variances were partially offset by a decrease of $21 million recorded to the regulatory asset during 2011 related to a lower than forecast income tax expense, which was recognized as an increase to income tax expense.

The net decrease of $78 million in the regulatory asset during 2010 included a decrease of $168 million for the variance in earnings from the Nuclear Funds and increases of $81 million and $21 million related to variances in revenues and income tax expense, respectively.

In its March 2011 decision, the OEB approved the recovery of the balance in the Bruce Lease Net Revenues Variance Account as at December 31, 2010 over a 22-month period ending December 31, 2012. Accordingly, effective March 1, 2011, OPG records amortization of the regulatory asset for this account on a straight-line basis over this period.

Tax Loss Variance Account

The Tax Loss Variance Account authorized by the OEB in May 2009 and effective April 1, 2008 pertains to the treatment of tax losses and their use for mitigation. In accordance with the OEB's May 2009 decision on OPG's motion to review and vary the OEB's 2008 decision on regulated prices, this account recorded the difference between the amount of mitigation included in the approved regulated prices in effect prior to March 1, 2011 and the revenue requirement reduction available from tax losses carried forward from the period April 1, 2005 to March 31, 2008 recalculated as per the OEB's 2008 decision. During 2011, OPG recorded an increase of $40 million, including $7 million of interest, to the regulatory asset related to the Tax Loss Variance Account and a corresponding $33 million increase to revenue. During the year ended December 31, 2010, OPG recorded an increase of $197 million to the regulatory asset, including $3 million of interest, and a corresponding $194 million increase to revenue.

In its March 2011 decision, the OEB approved the recovery of the balance in the account as at December 31, 2010 over a 46-month period ending December 31, 2014. Accordingly, effective March 1, 2011, OPG records amortization for this account on a straight-line basis over this period.

Pension and OPEB Cost Variance Account

In March 2011, OPG filed with the OEB a motion to review and vary the OEB's March 2011 decision, as it related to updated pension and OPEB costs. In June 2011, the OEB established the Pension and OPEB Cost Variance Account in its decision and order granting OPG's motion. The variance account records the difference between OPG's actual pension and OPEB costs for the regulated business and related tax impacts, and those reflected in the current regulated prices. The account is in effect for the period from March 1, 2011 to December 31, 2012. During 2011, OPG recorded a regulatory asset of $96 million, including $1 million of interest, related to this variance account and corresponding reductions to OM&A expenses and income tax expense of $74 million and $21 million, respectively.

Nuclear Liabilities Deferral Account

Effective April 1, 2005, *Ontario Regulation 53/05* required OPG to establish a deferral account in connection with changes to its Nuclear Liabilities. The deferral account records the revenue requirement impact associated with the changes in the Nuclear Liabilities arising from an approved reference plan, in accordance with the terms of the ONFA.

Prior to April 1, 2008, OPG recorded a regulatory asset for this deferral account associated with the increase in the Nuclear Liabilities on December 31, 2006 arising from an updated approved reference plan in accordance with the terms of the ONFA (the "2006 Approved Reference Plan"). The OEB's March 2011 decision authorized a 22-month recovery period ending December 31, 2012 for the remaining balance in the deferral account as at December 31, 2010 related to this increase in the Nuclear Liabilities. Accordingly, effective March 1, 2011, OPG records amortization of the regulatory asset for this deferral account on a straight-line basis over this period.

Nuclear Development Variance Account

In accordance with *Ontario Regulation 53/05,* the OEB established a variance account for differences between actual non-capital costs incurred by OPG in the course of planning and preparing for the development of proposed new nuclear facilities and the forecast amount of these costs included in the current nuclear regulated prices. OPG recorded a reduction in OM&A expenses of $7 million related to this variance account during 2011 (2010 - an increase of $50 million) reflecting such differences.

The OEB's March 2011 decision authorized the repayment of the balance in this variance account as at December 31, 2010 over a 22-month period ending December 31, 2012. Accordingly, effective March 1, 2011, OPG records amortization of the approved balance in the account on a straight-line basis over this period.

Hydroelectric Water Conditions Variance Account

The OEB authorized a variance account for the impact of the difference in regulated hydroelectric electricity production due to differences between forecast and actual water conditions. Forecast water conditions refer to those underlying the hydroelectric production forecast approved by the OEB in setting hydroelectric regulated prices.

For 2011 and 2010, OPG recorded decreases in revenue of $4 million and $22 million, respectively, and decreases in fuel expense related to GRC costs of $2 million and $8 million, respectively, reflecting actual water conditions that were favourable compared to those underlying the hydroelectric production forecasts approved by the OEB.

The OEB's March 2011 decision authorized the repayment of the balance in this variance account as at December 31, 2010 over a 22-month period ending December 31, 2012. Accordingly, effective March 1, 2011, the amortization of this balance is being recorded by OPG on a straight-line basis over this period.

Income and Other Taxes Variance Account

The OEB authorized a variance account to record deviations in income, capital and certain other tax-related expenses for the regulated business from those approved by the OEB in setting regulated prices caused by changes in tax rates or rules under the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), as modified by regulations made under the *Electricity Act, 1998,* as well as variances caused by reassessments. Variances resulting from reassessments of prior taxation years that have an impact on taxes payable related to the regulated business for the periods after March 31, 2008 are included in the account. In addition, the variance account captures certain changes to the property tax expense.

During 2011, OPG recorded an increase of $27 million (2010 - $19 million), including $1 million (2010 - nil) of interest, to the regulatory liability for this variance account primarily related to the impact of investment tax credits for eligible scientific research and experimental development expenditures, reassessments of certain prior taxation years, and lower than forecast statutory corporate income and capital tax rates. As a result, during 2011, OPG recorded additional OM&A expenses of $22 million and $2 million in each of additional capital and income tax expenses. During 2010, OPG recorded additional OM&A expenses of $14 million, an additional capital tax expense of $11 million, and a reduction in income tax expense of $6 million.

The OEB's March 2011 decision authorized the repayment of the balance in this variance account as at December 31, 2010 over a 22-month period ending December 31, 2012. Accordingly, effective March 1, 2011, the amortization of this balance is being recorded by OPG on a straight-line basis over this period.

Other Regulatory Assets and Liabilities

As at December 31, 2011, other regulatory assets included $11 million related to the Ancillary Services Net Revenue Variance Account (2010 - nil) and $9 million related to the Nuclear Fuel Cost Variance Account (2010 - $6 million). The Ancillary Services Net Revenue Variance Account was authorized by the OEB to capture differences between actual nuclear and regulated hydroelectric ancillary services net revenue and the forecast amounts of such revenue approved by the OEB in setting regulated prices. The Nuclear Fuel Cost Variance Account established by the OEB was effective up to March 1, 2011 and captured differences between actual nuclear fuel costs per unit of production and the forecast of these costs approved by the OEB. Only interest and amortization are recorded in this account effective March 1, 2011.

Other regulatory assets as at December 31, 2011 also included $4 million and $1 million in the Nuclear Interim Period Shortfall Variance Account and the Nuclear Deferral and Variance Over/Under Recovery Variance Account, respectively (2010 – $7 million and $21 million, respectively). The Nuclear Interim Period Shortfall Variance Account recorded, up to December 31, 2009, the under-collection of retroactive nuclear revenue for the period April 1, 2008 to November 30, 2008 resulting from differences between actual production and the forecast production approved in the OEB's 2008 decision. The balance of $1 million in the Hydroelectric SBG Variance Account and the unamortized balance of the variance account related to transmission outages and transmission restrictions were also included in other regulatory assets.

The Pickering A Return to Service ("PARTS") Deferral Account balance of $33 million was included in other regulatory assets as at December 31, 2010. The regulatory asset for this balance was fully amortized during the year ended December 31, 2011 based on the recovery periods authorized by the OEB's 2008 and March 2011 decisions.

As at December 31, 2011, other regulatory liabilities included $6 million in the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, and $1 million in each of the Hydroelectric Interim Period Shortfall Variance Account, the Capacity Refurbishment Variance Account and the HIM Variance Account. The Capacity Refurbishment Variance Account established by the OEB includes differences from forecast costs related to the refurbishment of the Darlington nuclear generating station as well as life extension initiatives at the Pickering B nuclear generation station. Forecast capacity refurbishment costs relate to those approved by the OEB in setting regulated prices.

Other regulatory liabilities as at December 31, 2010 included $9 million in the Ancillary Services Net Revenue Variance Account, $8 million in the Capacity Refurbishment Variance Account, $8 million in the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, and $2 million in the Hydroelectric Interim Period Shortfall Variance Account.

In its March 2011 decision, the OEB authorized the recovery or repayment of the balances as at December 31, 2010 of all variance and deferral accounts included in other regulatory assets and liabilities, with the exception of the PARTS Deferral Account, over a period of 22 months ending December 31, 2012. Accordingly, effective March 1, 2011, the amortization of these balances is being recorded by OPG on a straight-line basis over this period. The PARTS Deferral Account was authorized to be amortized over a period of ten months ending December 31, 2011.

Summary of the Impact of Regulatory Assets and Liabilities

The following table summarizes the income statement and other comprehensive income statement impacts of recognizing regulatory assets and liabilities:

	2011			2010		
(millions of dollars)	As Stated	Impact of Regulatory Assets and Liabilities	Financial Statements without the Impact of Regulatory Assets and Liabilities	As Stated	Impact of Regulatory Assets and Liabilities	Financial Statements without the Impact of Regulatory Assets and Liabilities
Revenue	**5,061**	**(61)**	**5,000**	5,367	(265)	5,102
Fuel expense	**754**	**15**	**769**	900	38	938
Operations, maintenance and administration	**2,756**	**64**	**2,820**	2,913	(58)	2,855
Depreciation and amortization	**723**	**(180)**	**543**	688	(131)	557
Accretion on fixed asset removal and nuclear waste management liabilities	**702**	**1**	**703**	660	13	673
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(509)**	**48**	**(461)**	(668)	(168)	(836)
Property and capital taxes	**51**	**(5)**	**46**	77	(17)	60
Net interest expense	**165**	**9**	**174**	176	(1)	175
Income tax expense (recovery)	**11**	**(10)**	**1**	(60)	158	98
Other comprehensive loss	**(94)**	**11**	**(83)**	(45)	12	(33)

NOTE 8 LONG-TERM DEBT

Long-term debt consists of the following as at December 31:

(millions of dollars)	**2011**	2010
Long-term debt[1]		
Notes payable to the Ontario Electricity Financial Corporation		
Senior Notes[2]		
5.72% due 2012	**400**	400
3.43% due 2015	**500**	500
4.91% due 2016	**270**	270
5.35% due 2017	**900**	900
5.27% due 2018	**395**	395
5.44% due 2019	**365**	365
4.56% due 2020	**660**	660
4.28% due 2021	**185**	–
5.07% due 2041	**300**	–
Subordinated Notes[2]		
6.65% due 2011	**–**	375
UMH Energy Partnership debt[3]		
Senior Notes		
7.86% due to 2041	**196**	198
Lower Mattagami Energy Limited Partnership[4]		
Senior Notes		
2.59% due 2015	**96**	–
4.46% due 2021	**223**	–
5.26% due 2041	**248**	–
Non-recourse long-term debt[1]		
Brighton Beach Power L.P.		
Notes		
7.03% due to 2024[5]	**115**	119
Other long-term obligations at various floating rates[6]	**44**	46
	4,897	4,228
Less: due within one year	**413**	385
Long-term debt	**4,484**	3,843

[1] The interest rates disclosed reflect the effective interest rate of the debt.

[2] OEFC senior debt is entitled to receive, in full, amounts owing in respect of the senior debt before subordinated debt is entitled to receive any payments, and is pari passu to the UMH Energy Partnership and the Lower Mattagami Energy Limited Partnership ("LME") senior notes.

[3] These notes are secured by the assets of the Upper Mattagami and Hound Chute project and are recourse to OPG until specified conditions have been satisfied following construction. These notes rank pari passu to the OEFC senior notes.

[4] These notes are secured by the assets of the Lower Mattagami project including existing operating facilities and facilities being constructed and are recourse to OPG until the recourse release date. These notes rank pari passu to the OEFC senior notes.

[5] The Brighton Beach Power L.P. debt is secured by a first charge on the assets of the partnership, an assignment of the bank accounts, and an assignment of the Brighton Beach project agreements. Brighton Beach Power L.P. has entered into floating-to-fixed interest rate hedges to manage the risks arising from fluctuation in interest rates.

[6] The interest rates of the floating rate debt are referenced to various interest rate indices, such as the bankers' acceptance rate and the London Interbank Offered Rate, plus a margin.

During 2010, OPG executed an amended Niagara Tunnel project credit facility for an amount up to $1.6 billion. Interest will be fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. As at December 31, 2011, OPG issued $875 million (2010 - $690 million) against this facility.

OPG reached an agreement with the OEFC in the first quarter of 2011 for a $375 million credit facility to refinance notes as they mature over the period from January 2011 to December 2011. Refinancing under this agreement totalled $300 million as at December 31, 2011.

Interest paid in 2011 was $259 million (2010 - $258 million), of which $244 million (2010 - $242 million) relates to interest paid on long-term corporate debt.

The book value of the pledged assets as at December 31, 2011 was $2,305 million (2010 - $968 million).

A summary of the contractual maturities by year is as follows:

(millions of dollars)	
2012	413
2013	13
2014	13
2015	611
2016	287
Thereafter	3,560
	4,897

NOTE 9 SHORT TERM CREDIT FACILITIES AND NET INTEREST EXPENSE

As at December 31, 2011, OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year tranches. In May 2011, OPG renewed and extended one $500 million tranche to May 18, 2015. The other $500 million tranche has a maturity date of May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at December 31, 2011, no commercial paper was outstanding under this facility. OPG had no other outstanding borrowings under the bank credit facility as at December 31, 2011.

During 2010, the LME established a $700 million bank credit facility to support the initial construction phase for the Lower Mattagami project and the commercial paper program. As at December 31, 2011, $10 million of commercial paper was outstanding under this program (2010 - $155 million). In March 2011, OPG executed a $700 million credit facility with the OEFC in support of the Lower Mattagami project. As at December 31, 2011, there was no outstanding borrowing under this credit facility.

As at December 31, 2011, OPG also maintains $25 million of short-term uncommitted overdraft facilities and $353 million of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other purposes. As at December 31, 2011, there was a total of $305 million of Letters of Credit issued, which included $287 million for the supplementary pension plans, $17 million for general corporate purposes and $1 million related to the operation of the PEC.

In addition, as at December 31, 2011, the NWMO has issued a $3 million Letter of Credit for its supplementary pension plan.

The following table summarizes the net interest expense for the years ended December 31:

(millions of dollars)	**2011**	2010
Interest on long-term debt	**254**	244
Interest on short-term debt	**15**	16
Interest income	**(9)**	(3)
Capitalized interest	**(86)**	(76)
Interest applied to regulatory assets and liabilities	**(9)**	(5)
Net interest expense	**165**	176

NOTE 10 FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

The liabilities for fixed asset removal and nuclear waste management on a present value basis consist of the following as at December 31:

(millions of dollars)	**2011**	2010
Liability for nuclear used fuel management	**8,523**	7,534
Liability for nuclear decommissioning and low and intermediate level waste management	**5,537**	5,013
Liability for non-nuclear fixed asset removal	**159**	157
Fixed asset removal and nuclear waste management liabilities	**14,219**	12,704

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31, are as follows:

(millions of dollars)	**2011**	2010
Liabilities, beginning of year	**12,704**	11,859
Increase in liabilities due to accretion	**703**	673
Increase in liabilities due to changes in assumptions related to the decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station	**-**	293
Increase in liabilities resulting from the ONFA Reference Plan update process (NOTE 3)	**934**	-
Increase in liabilities due to nuclear used fuel and waste management variable expenses and other expenses	**55**	56
Liabilities settled by expenditures on fixed asset removal and nuclear waste management	**(172)**	(181)
Change in the liabilities for non-nuclear fixed asset removal	**(5)**	4
Liabilities, end of year	**14,219**	12,704

The cash and cash equivalents balance as at December 31, 2011 includes $10 million of cash and cash equivalents that are for the use of nuclear waste management activities (2010 - $3 million).

OPG's fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred up to and beyond termination of operations and the closure of nuclear, thermal generating plant facilities and other facilities. Costs will be incurred for activities such as dismantling, demolition and disposal of facilities and equipment, remediation and restoration of sites and the ongoing and long-term management of nuclear used fuel and low and intermediate level waste material.

Nuclear station decommissioning consists of original placement of stations into a safe store condition followed by a nominal 30-year safe store period prior to station dismantling. Under the terms of the Bruce Lease, OPG continues to be primarily responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

The following costs are recognized as a liability:

- The present value of the costs of dismantling the nuclear and thermal production facilities and other facilities after the end of their useful lives;
- The present value of the fixed cost portion of nuclear waste management programs that are required, based on the total volume of waste expected to be generated over the assumed life of the stations; and
- The present value of the variable cost portion of nuclear waste management programs taking into account actual waste volumes generated to date.

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions, since these programs run for many years. The most recent update of the estimates for the nuclear waste management and decommissioning liabilities was performed as at December 31, 2011 as part of the ONFA Reference Plan update process. The update resulted in an increased estimate of costs mainly due to higher costs for the construction of the low and intermediate level waste underground repository, higher costs for handling and storing of used fuel and low and intermediate level waste during station operations, and changes in economic indices. The increase was partially offset by lower expected costs to decommission reactors. The change in the cost estimate results from the ONFA Reference Plan update process.

For the purposes of calculating OPG's fixed asset removal and nuclear waste management liabilities, as at December 31, 2011, consistent with the current accounting end of life assumptions, nuclear and thermal plant closures are projected to occur over the next three to 42 years.

The updated estimates for the Nuclear Liabilities included cash flow estimates for decommissioning nuclear stations for approximately 40 years after station shut down and to 2071 for placement of used fuel into the long-term disposal repository followed by extended monitoring. The undiscounted amount of estimated future cash flows associated with the liabilities is approximately $31 billion in 2011 dollars. The weighted average discount rate used to calculate the present value of the liabilities at December 31, 2011 was 5.4 percent. The increase in the liabilities recorded as at December 31, 2011, which results from the ONFA Reference Plan update process, was determined by discounting the net incremental future cash flows at 3.4 percent. The cost escalation rates used to determine the increase in the cost estimates ranged from 1.9 percent to 3.7 percent.

In February 2010, OPG announced its decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station. Accordingly, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended from 2019 to 2051. The extension of the service life also impacted the assumptions for OPG's Nuclear Liabilities primarily due to cost increases related to additional used fuel bundles, partially offset by a decrease in the liability for decommissioning, resulting from the change in the service life assumptions. The net increase in the liabilities recorded in 2010 was $293 million, using a discount rate of 4.8 percent.

The significant assumptions underlying operational and technical factors used in the calculation of the accrued Nuclear Liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs, end of life dates, financial indicators or the technology employed may result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a significant degree of uncertainty surrounding the measurement of the costs for these programs, which may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The federal Nuclear Fuel Waste Act ("NFWA") proclaimed into force in 2002 requires that Canada's nuclear fuel waste owners form a nuclear waste management organization and that each waste owner establish a trust fund for used fuel management costs. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the Adaptive Phased Management concept approved by the Government of Canada, which assumes a deep geologic repository in-service date of 2035.

Liability for Nuclear Decommissioning and Low and Intermediate Level Waste Management Costs

The liability for nuclear decommissioning and low and intermediate level waste management represents the estimated costs of decommissioning nuclear generating stations after the end of their service lives, as well as the cost of managing low and intermediate level radioactive wastes generated by the nuclear stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include decommissioning of nuclear generating stations on a deferred dismantlement basis where the reactors will remain in a safe storage state for a 30-year period prior to a 10-year dismantlement period.

The life cycle costs of low and intermediate level waste management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of ultimate long-term management of these wastes. The current assumptions used to establish the accrued low and intermediate level waste management costs include a disposal facility for low and intermediate level waste with a targeted in-service date of 2019. Agreement has been reached with local municipalities for OPG to develop a deep geologic repository for the long-term management of low and intermediate level waste adjacent to the Western Waste Management Facility. A federal environmental assessment in respect of this proposed facility is in progress.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal is based on third party cost estimates after an in-depth review of active plant sites and an assessment of required clean-up and restoration activities. This liability primarily represents the estimated costs of decommissioning thermal generating stations at the end of their service lives. The December 31, 2011 liability for the decommissioning of the thermal generating stations is based on retirement dates for these stations of between 2014 and 2030. The discount rates range from 1.5 percent to 5.8 percent. The total undiscounted amount of the estimated cash flows required to settle the non-nuclear obligation is $215 million.

In addition to the $121 million liability for active sites, OPG also has an asset retirement obligation of $38 million for decommissioning and restoration costs associated with plant sites that have been divested or are no longer in use.

OPG has no legal obligation associated with the decommissioning of its hydroelectric generating facilities and the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be used for the foreseeable future. Accordingly, OPG has not recognized a liability for the decommissioning of its hydroelectric generating facilities.

Ontario Nuclear Funds Agreement

OPG sets aside and invests funds held in segregated custodian and trustee accounts specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities in accordance with the ONFA and the NFWA. OPG jointly oversees the investment management of the Nuclear Funds with the Province. The assets of the Nuclear Funds are maintained in third party custodian accounts that are segregated from the rest of OPG's assets.

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management and a portion of used fuel storage costs after station life. As at December 31, 2011 and 2010, the Decommissioning Fund was in an underfunded position. OPG bears the risk and liability for cost estimate increases and fund earnings in the Decommissioning Fund.

The Used Fuel Fund was established to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in the ONFA, which limit OPG's total financial exposure at approximately $11.9 billion in December 31, 2011 dollars based on used fuel bundle projections of 2.23 million bundles, consistent with the station life assumptions included within the initial financial reference plan. The graduated liability thresholds do not apply to additional used fuel bundles beyond 2.23 million.

OPG makes quarterly payments to the Used Fuel Fund over the life of its nuclear generating stations, as specified in the ONFA. Required funding for 2011 under the ONFA was $250 million (2010 - $264 million), including a contribution to the Ontario NFWA Trust (the "Trust") of $139 million (2010 - $136 million). Included in the 2011 funding was a $133 million contribution related to future bundles over the 2.23 million threshold (2010 - $147 million). Based on the 2006 Approved Reference Plan, OPG is required to contribute annual amounts to the Used Fuel Fund, ranging from $84 million to $240 million over the years 2012 to 2016 (Note 16).

The NFWA was proclaimed into force in November 2002. As required under the NFWA, OPG established the Trust in November 2002 and made an initial deposit of $500 million into the Trust. The NFWA required OPG to make annual contributions of $100 million to the Trust until such time that the NWMO proposed funding formula to address the future financial costs of implementing the Adapted Phase Management approach was approved by the Federal Minister of Natural Resources. In 2009, this funding formula was approved. The Trust forms part of the Used Fuel Fund, and contributions to the Trust, as required by the NFWA, are applied towards OPG's ONFA payment obligations.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") since 2003, on behalf of OPG. The *Nuclear Safety and Control Act* (Canada) requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee provides for any shortfall between the long-term liabilities and the current market value of the Used Fuel Fund and the Decommissioning Fund. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. In December 2009, the CNSC approved an increase in the amount of the Provincial Guarantee to $1,545 million effective on March 1, 2010. The value of this Provincial Guarantee will be in effect through to the end of 2012, when the next reference plan for the CNSC is planned to be approved. In 2011, OPG paid a guarantee fee of $8 million based on a Provincial Guarantee amount of $1,545 million, for the period January 1, 2011 to December 31, 2011. OPG is having preliminary discussions with the CNSC on the process for submitting the required documentation for the 2013 - 2017 Reference Plan.

In accordance with CICA Handbook Section 3855, the investments in the Nuclear Funds and the corresponding payables/receivables to/from the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's consolidated statements of income and consolidated balance sheets.

Decommissioning Fund

Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund over the estimated completion costs as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA Reference Plan. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA Reference Plan is approved with a higher estimated decommissioning liability. When the Decommissioning Fund is underfunded, the earnings on the Decommissioning Fund reflect actual fund returns based on the market value of the assets.

The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its annual earnings at 3.25 percent plus long-term Ontario Consumer Price Index, which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status.

The Decommissioning Fund's asset value on a fair value basis was $5,342 million as at December 31, 2011, which was less than the liability per the 2006 Approved Reference Plan. At December 31, 2010, the Decommissioning Fund's asset value on a fair value basis was $5,267 million, which was less than the liability per the 2006 Approved Reference Plan. Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the most recently approved ONFA Reference Plan, are at least 120 percent funded, OPG may direct up to 50 percent of the surplus over 120 percent to be treated as a contribution to the Used Fuel Fund, and the OEFC would be entitled to a distribution of an equal amount. Since OPG is responsible for the risks associated with liability cost increases and investment returns in the Decommissioning Fund, future contributions to the Decommissioning Fund may be required should the fund be in an underfunded position at the time of the next liability reference plan review.

The investments in the Decommissioning Fund include a diversified portfolio of equities and fixed income securities that are invested across geographic markets. The Nuclear Funds are invested to fund long-term liability requirements, and as such, the portfolio asset mix is structured to achieve the required return over a long-term horizon. While short-term fluctuations in market value will occur, managing the long-term return of the Nuclear Funds remains the primary goal.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 percent plus the change in the Ontario Consumer Price Index for funding related to the first 2.23 million of used fuel bundles ("committed return"). OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the Used Fuel Fund's assets, which includes realized and unrealized returns, is recorded as due to or due from the Province. The due to or due from the Province represents the amount the fund would pay to or receive from the Province if the committed return were to be settled as of the consolidated balance sheet date. As part of its regular contributions to the Used Fuel Fund, OPG was required to allocate $133 million of its 2011 contribution towards its liability associated with future fuel bundles that exceed the 2.23 million threshold (2010 - $147 million). As prescribed under the ONFA, OPG's contributions for incremental fuel bundles are not subject to the Province's guaranteed rate of return, but rather earn a return based on changes in the market value of the assets of the Used Fuel Fund.

As at December 31, 2011, the Used Fuel Fund asset value on a fair value basis was $6,556 million. The Used Fuel Fund value included a receivable from the Province of $47 million related to the committed return adjustment. As at December 31, 2010, the Used Fuel Fund asset value on a fair value basis was $5,979 million, including a payable to the Province of $219 million related to the committed return adjustment.

Under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 percent compared to the value of the associated liabilities.

The nuclear fixed asset removal and nuclear waste management funds as at December 31 consist of the following:

(millions of dollars)	Fair Value 2011	2010
Decommissioning Fund	5,342	5,267
Used Fuel Fund[1]	6,509	6,198
Due from (to) Province - Used Fuel Fund	47	(219)
	6,556	5,979
	11,898	11,246

[1] The Ontario NFWA Trust represented $2,296 million as at December 31, 2011 (2010 - $1,949 million) of the Used Fuel Fund on a fair value basis.

The fair value of the securities invested in the Nuclear Funds as at December 31 is as follows:

(millions of dollars)	Fair Value 2011	2010
Cash and cash equivalents and short-term investments	555	581
Alternative investments	212	61
Pooled funds	1,842	1,835
Marketable equity securities	4,863	5,226
Fixed income securities	4,345	3,735
Derivatives	2	3
Net receivables/payables	38	29
Administrative expense payable	(6)	(5)
	11,851	11,465
Due from (to) Province - Used Fuel Fund	47	(219)
	11,898	11,246

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31 mature according to the following schedule:

(millions of dollars)	Fair Value 2011	2010
1 - 5 years	1,153	1,135
5 - 10 years	594	1,092
More than 10 years	2,598	1,508
Total maturities of debt securities	4,345	3,735
Average yield	2.8%	3.4%

The change in the Nuclear Funds for the years ended December 31 is as follows:

	Fair Value	
(millions of dollars)	**2011**	2010
Decommissioning Fund, beginning of year	**5,267**	4,876
Increase in fund due to return on investments	**108**	465
Decrease in fund due to reimbursement of expenditures	**(33)**	(74)
Decommissioning Fund, end of year	**5,342**	5,267
Used Fuel Fund, beginning of year	**5,979**	5,370
Increase in fund due to contributions made	**250**	264
Increase in fund due to return on investments	**87**	557
Decrease in fund due to reimbursement of expenditures	**(26)**	(26)
Increase in due from (to) Province	**266**	(186)
Used Fuel Fund, end of year	**6,556**	5,979

The earnings from the Nuclear Funds during 2011 and 2010 were impacted by the Bruce Lease Net Revenues Variance Account authorized by the OEB. The earnings on the Nuclear Funds for the years ended December 31 are as follows:

(millions of dollars)	**2011**	2010
Decommissioning Fund	**108**	465
Used Fuel Fund	**353**	371
Bruce Lease Net Revenues Variance Account (NOTE 7)	**48**	(168)
Total earnings	**509**	668

NOTE 11 INCOME TAXES

OPG follows the liability method of tax accounting for all its business segments and records an offsetting regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

During 2011, OPG recorded a decrease to the future income tax liability for the future income taxes that are expected to be recovered or refunded through regulated prices charged to customers of $19 million. Since these future income taxes are expected to be recovered through future regulated prices, OPG has recorded a corresponding decrease to the regulatory asset for future income taxes. As a result, the future income taxes for 2011 were not impacted. The decrease in the future income tax liability of $19 million for the rate regulated operations for the year ended December 31, 2011 included $5 million related to the decrease to the regulatory asset for future income taxes.

The following table summarizes the future income tax liabilities recorded for the rate regulated operations:

(millions of dollars)	**2011**	2010
January 1:		
Future income tax liabilities on temporary differences related to regulated operations	**547**	452
Future income tax liabilities resulting from the regulatory asset for future income taxes	**164**	140
	711	592
Changes during the year:		
(Decrease) increase in future income tax liabilities on temporary differences related to regulated operations	**(14)**	95
(Decrease) increase in future income tax liabilities resulting from the regulatory asset for future income taxes	**(5)**	24
Balance at December 31	**692**	711

A reconciliation between the statutory and the effective rate of income taxes is as follows:

(millions of dollars)	2011	2010
Income before income taxes	427	589
Combined Canadian federal and provincial statutory income tax rates, including surtax	28.0%	31.0%
Statutory income tax rates applied to accounting income	120	183
Increase (decrease) in income taxes resulting from:		
Income tax components of the regulatory variance accounts	2	(27)
Non-taxable income items	(23)	(6)
Change in income tax positions	(79)	(96)
Regulatory asset for future income taxes	8	(131)
Other	(17)	17
	(109)	(243)
Income tax expense (recovery)	11	(60)
Effective rate of income taxes	2.6%	(10.2%)

In 2011, a number of prior years' audits were completed and certain outstanding tax matters were resolved. As a result, OPG reduced its income tax liability by $79 million.

Significant components of the income tax expense (recovery) are presented in the table below:

(millions of dollars)	2011	2010
Current income tax expense (recovery):		
Current payable	68	35
Change to income tax position	(79)	(96)
Income tax components of the regulatory variance accounts (NOTE 7)	12	(6)
Other	(23)	-
	(22)	(67)
Future income tax expense (recovery):		
Change in temporary differences	35	159
Income tax components of the regulatory variance accounts (NOTE 7)	(10)	(21)
Regulatory asset for future income taxes	8	(131)
	33	7
Income tax expense (recovery)	11	(60)

The income tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31 are presented in the table below:

(millions of dollars)	**2011**	2010
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**3,544**	3,169
Other liabilities and assets	**793**	777
Future recoverable Ontario minimum tax	**16**	30
	4,353	3,976
Future income tax liabilities:		
Fixed assets	**(1,383)**	(1,160)
Nuclear fixed asset removal and nuclear waste management funds	**(2,974)**	(2,813)
Other liabilities and assets	**(726)**	(728)
	(5,083)	(4,701)
Net future income tax liabilities	**(730)**	(725)
Represented by:		
Current portion - asset	**89**	73
Long-term portion - liability	**(819)**	(798)
	(730)	(725)

The amount of cash income taxes paid for 2011 was $4 million (2010 - $44 million).

NOTE 12 PENSION AND OTHER POST EMPLOYMENT BENEFIT COSTS

The pension and OPEB obligations and the pension fund assets are measured as at December 31, 2011. Details of OPG's pension and OPEB obligations, pension fund assets and costs are presented in the following tables.

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2011	2010	**2011**	2010
Weighted Average Assumptions - Benefit Obligation at Year End				
Rate used to discount future benefits	**5.10%**	5.80%	**5.07%**	5.67%
Salary schedule escalation rate	**3.00%**	3.00%	**-**	-
Rate of cost of living increase to pensions	**2.00%**	2.00%	**-**	-
Initial health care trend rate	**-**	-	**6.48%**	6.53%
Ultimate health care trend rate	**-**	-	**4.38%**	4.69%
Year ultimate rate reached	**-**	-	**2030**	2030
Rate of increase in disability benefits	**-**	-	**2.00%**	2.00%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2011	2010	**2011**	2010
Weighted Average Assumptions – Cost for the Year				
Expected return on plan assets net of expenses	**6.50%**	7.00%	**–**	–
Rate used to discount future benefits	**5.80%**	6.80%	**5.67%**	6.69%
Salary schedule escalation rate	**3.00%**	3.00%	**–**	–
Rate of cost of living increase to pensions	**2.00%**	2.00%	**–**	–
Initial health care trend rate	**–**	–	**6.53%**	6.62%
Ultimate health care trend rate	**–**	–	**4.69%**	4.69%
Year ultimate rate reached	**–**	–	**2030**	2030
Rate of increase in disability benefits	**–**	–	**2.00%**	2.00%
Expected average remaining service life for employees (years)	**12**	12	**11**	11

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2011**	2010	**2011**	2010	**2011**	2010
Changes in Plan Assets						
Fair value of plan assets at beginning of year	**9,118**	8,216	**–**	–	**–**	–
Contributions by employer	**302**	272	**8**	5	**80**	77
Contributions by employees	**80**	80	**–**	–	**–**	–
Actual return on plan assets net of expenses	**586**	973	**–**	–	**–**	–
Settlement	**–**	(10)	**–**	–	**–**	–
Benefit payments	**(482)**	(413)	**(8)**	(5)	**(80)**	(77)
Fair value of plan assets at end of year	**9,604**	9,118	**–**	–	**–**	–
Changes in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	**10,375**	8,610	**219**	179	**2,341**	1,910
Employer current service costs	**210**	160	**9**	6	**76**	52
Contributions by employees	**80**	80	**–**	–	**–**	–
Interest on projected benefit obligation	**603**	583	**13**	12	**133**	128
Benefit payments	**(482)**	(413)	**(8)**	(5)	**(80)**	(77)
Settlement	**–**	(10)	**–**	–	**–**	(2)
Past service costs	**–**	–	**–**	–	**1**	–
Net actuarial loss	**1,411**	1,365	**28**	27	**237**	330
Projected benefit obligation at end of year	**12,197**	10,375	**261**	219	**2,708**	2,341
Funded status – deficit at end of year	**(2,593)**	(1,257)	**(261)**	(219)	**(2,708)**	(2,341)

Pension fund assets are allocated among three principal investment categories. Furthermore, equity investments are diversified across Canadian, U.S. and non-North American stocks. There are real estate and infrastructure portfolios that are less than two percent of the total pension fund assets.

	2011	2010
Registered pension plan fund asset investment categories		
Equities	**53%**	60%
Fixed income	**42%**	35%
Cash and short-term investments	**3%**	5%
Other	**2%**	-
Total	**100%**	100%

Based on the most recently filed actuarial valuation of the OPG registered pension plan, as at January 1, 2011, there was an unfunded liability on a going-concern basis of $555 million and a deficiency on a wind-up basis of $5,663 million. In the previously filed actuarial valuation, as at January 1, 2008, there was an unfunded liability on a going-concern basis of $239 million and a deficiency on a wind-up basis of $2,846 million. The funded status to be determined in the next filed funding valuation, which must have an effective date no later than January 1, 2014, could be significantly different.

Based on the most recently filed actuarial valuation of the NWMO registered pension plan, as at January 1, 2011, there was a surplus on a going-concern basis of $6 million and a deficiency on a wind-up basis of $5 million. In the previously filed actuarial valuation, as at January 1, 2010, there was a surplus on a going-concern basis of $4 million and a deficiency on a wind-up basis of $5 million. The next filed funding valuation must have an effective date no later than January 1, 2012.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $290 million as at December 31, 2011 (2010 - $256 million).

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2011**	2010	**2011**	2010	**2011**	2010
Reconciliation of Funded Status to Accrued Benefit Asset (Liability)						
Funded status - deficit at end of year	**(2,593)**	(1,257)	**(261)**	(219)	**(2,708)**	(2,341)
Unamortized net actuarial loss	**3,781**	2,393	**77**	51	**701**	487
Unamortized past service costs	**-**	10	**-**	-	**15**	17
Accrued benefit asset (liability) at end of year	**1,188**	1,146	**(184)**	(168)	**(1,992)**	(1,837)
Short-term portion	**-**	-	**(7)**	(8)	**(92)**	(89)
Long-term portion	**1,188**	1,146	**(177)**	(160)	**(1,900)**	(1,748)

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2011**	2010	**2011**	2010	**2011**	2010
Components of Cost Recognized						
Current service costs	**210**	160	**9**	6	**76**	52
Interest on projected benefit obligation	**603**	583	**13**	12	**133**	128
Expected return on plan assets net of expenses	**(629)**	(636)	**-**	-	**-**	-
Settlement	**-**	-	**-**	-	**-**	(2)
Amortization of past service costs	**10**	18	**-**	1	**3**	2
Amortization of net actuarial loss	**66**	-	**2**	1	**23**	-
Cost recognized[1]	**260**	125	**24**	20	**235**	180

[1] Excluding the impact of the Pension and OPEB Cost Variance Account (Note 7).

	Registered Pension Plans		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2011**	2010	**2011**	2010	**2011**	2010
Components of Cost Incurred and Recognized						
Current service costs	**210**	160	**9**	6	**76**	52
Interest on projected benefit obligation	**603**	583	**13**	12	**133**	128
Actual return on plan assets net of expenses	**(586)**	(973)	**-**	-	**-**	-
Settlement gain	**-**	-	**-**	-	**-**	(2)
Past service costs	**-**	-	**-**	-	**1**	-
Net actuarial loss	**1,411**	1,365	**28**	27	**237**	330
Cost incurred in year	**1,638**	1,135	**50**	45	**447**	508
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	**(43)**	337	**-**	-	**-**	-
Past service costs	**10**	18	**-**	1	**2**	2
Net actuarial loss	**(1,345)**	(1,365)	**(26)**	(26)	**(214)**	(330)
Cost recognized[1]	**260**	125	**24**	20	**235**	180

[1] Excluding the impact of the Pension and OPEB Cost Variance Account (Note 7).

Total benefit costs, including the impact of Pension and OPEB Cost Variance Account, for the years ended December 31 are as follows:

(millions of dollars)	**2011**	2010
Registered pension plans	**260**	125
Supplementary pension plans	**24**	20
Other post employment benefits	**235**	180
Pension and OPEB Cost Variance Account (NOTE 7)	**(74)**	-
Pension and other post employment benefit costs	**445**	325

A one percent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2011 OPEB cost recognized of $41 million (2010 - $30 million) or a decrease in the service and interest components of the 2011 OPEB cost recognized of $31 million (2010 - $23 million), respectively. A one percent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2011 of $478 million (2010 - $394 million) or a decrease in the projected OPEB obligation at December 31, 2011 of $369 million (2010 - $307 million).

NOTE 13 FINANCIAL INSTRUMENTS

The Risk Oversight Committee ("ROC") assists the Board of Directors to fulfill its oversight responsibilities for matters relating to identification and management of the Company's key business risks. Risk management activities are coordinated by a centralized Corporate Risk Management group led by the Chief Risk Officer. Risks that would prevent business units from achieving business plan objectives are identified at the business unit level. Senior management sets risk limits for the financing, procurement, and trading activities of the Company and ensures that effective risk management policies and processes are in place to ensure compliance with such limits in order to maintain an appropriate balance between risk and return. OPG's risk management process aims to continually evaluate the effectiveness of risk mitigation activities for identified key risks. The findings from this evaluation process are reported quarterly to the ROC.

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in interest rates, and movements in foreign currency that affect its assets, liabilities, and forecast transactions. Select derivative instruments are used to limit such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

The following is a summary of OPG's financial instruments as at December 31:

Financial Instruments[1]		Fair Value	
(millions of dollars)	Designated Category	**2011**	2010
Cash and cash equivalents	Held-to-maturity	**642**	280
Long-term investments[2]	Held-for-trading	**32**	30
Nuclear fixed asset removal and nuclear waste management funds	Held-for-trading	**11,898**	11,246
Long-term debt (including current portion)	Other than Held-for-trading	**(5,452)**	(4,256)
Derivative embedded in the Bruce Lease	Held-for-trading	**(186)**	(163)
Other commodity derivative instruments included in current and long-term accounts receivable[3]	Held-for-trading	**4**	3
Other commodity derivative instruments included in current and long-term accounts payable[3]	Held-for-trading	**1**	-

[1] The carrying value of other financial instruments included in accounts receivable and accounts payable and accrued charges approximates their fair value due to the immediate or short-term maturity of these financial instruments.

[2] Represents investments owned by the Company's wholly owned subsidiary, OPGV, that are recorded at fair value in accordance with CICA Handbook AcG-18.

[3] Derivative instruments not qualifying for hedge accounting.

Risks Associated with Financial Instruments

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument might fail to meet its obligation under the terms of a financial instrument. To manage credit risk, the Company enters into transactions with creditworthy counterparties, limits the amount of exposure to each counterparty where possible, and monitors the financial condition of counterparties.

The following table provides information on credit risk from electricity transactions and trading activities as at December 31, 2011:

			Potential Exposure for Largest Counterparties	
Credit Rating[1]	Number of Counterparties[2]	Potential Exposure[3] (millions of dollars)	Number of Counterparties	Counterparty Exposure (millions of dollars)
Investment grade	30	11	3	6
Below investment grade	4	15	2	14

1 Credit ratings are based on OPG's own analysis, taking into consideration external rating agency analysis where available, as well as recognizing explicit credit support provided through guarantees and Letters of Credit or other security.

2 OPG's counterparties are defined by each master agreement.

3 Potential exposure is OPG's assessment of maximum exposure over the life of each transaction at a 95 percent confidence interval.

The majority of OPG's revenues are derived from sales through the IESO administered spot market. Net credit exposure to the IESO of the securitized receivables retained at December 31, 2011 was $325 million (Note 5). Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure was to a diverse group of generally high quality counterparties. OPG's allowance for doubtful debts at December 31, 2011 was less than $1 million.

OPG also enters into financial transactions with highly rated financial institutions in order to hedge interest rate and currency exposures. The potential credit exposure with these counterparties was nil at December 31, 2011. Other credit exposures include the investing of excess cash.

Investments

The Company limits its exposure to credit risk by investing in reasonably liquid (i.e., in normal circumstances, capable of liquidation within one month) securities that are rated by a recognized credit rating agency in accordance with minimum investment quality standards. In regard to derivative contracts, the Company limits its exposure to credit risk by engaging with high credit-quality counterparties.

Guarantees

As part of normal business, OPG and certain of its subsidiaries and joint ventures enter into various agreements providing financial guarantees to third-parties on behalf of certain subsidiaries and joint ventures. Such agreements include guarantees, standby Letters of Credit and surety bonds.

Market Risk

Market risk is the risk that changes to market prices, such as foreign exchange rates, interest rates, electricity prices, and prices of commodities used as fuel, will affect OPG's income or the value of the Company's assets. The objective of market risk management is to monitor and manage market risk exposures within acceptable parameters, while optimizing the return on risk.

The Company manages its exposure to market risks using forwards, risk limits and hedging strategies in the ordinary course of business. All such transactions are carried out within the guidelines set by the Executive Risk Committee.

Foreign Exchange Risk

OPG's foreign exchange exposure is attributable to two primary factors: United States dollar ("U.S. dollar") denominated transactions such as the purchase of fuels; and the influence of U.S. dollar denominated commodity prices on Ontario electricity market prices. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when necessary, in order to manage the Company's exposure to foreign currency movements.

Interest Rate Risk

Interest rate risk is the risk that the value of assets and liabilities can change due to movements in related interest rates. Interest rate risk at OPG arises with the need to undertake new financing and with the addition of variable rate debt. The management of these risks is undertaken by using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing.

Electricity Price Risk

Electricity price risk for the Company is the potential for adverse movements in the market price of electricity. Exposure to electricity price risk is reduced as a result of regulated prices and other contractual arrangements for a significant portion of OPG's business. To manage this risk, the Company seeks to maintain a balance between the commodity price risk inherent in its electricity production and electricity forward sales contracts to the extent that trading liquidity in the electricity commodity market provides the economic opportunity to do so.

The table below summarizes a sensitivity analysis for significant unsettled market risk exposures with respect to the Company's financial instruments as at December 31, 2011, with all other variables held constant. It shows how net income and other comprehensive income before tax would have been affected by changes in the relevant risk variable that were reasonably possible, at that date, over the year.

(millions of dollars - except where noted)	A Change of:	Impact on Net Income Before Tax	Impact on Other Comprehensive Income Before Tax
Interest rate[1]	+/- 86 basis points	-	+18/-19
Electricity price - Trading[2]		+/- 1.82	n/a

[1] The interest rate sensitivity analysis was determined based on the exposure to interest rates for derivative instruments designated as hedges at the date of the consolidated balance sheet.

[2] The sensitivity analysis around electricity prices was constructed using forward price volatilities that were based on historical daily forward electricity contract prices. The analysis considered contracts of varying time frames, traded in Ontario and neighbouring electricity markets.

Nuclear Funds Equity Price Risk

Equity price risk is the risk of loss due to a decline in the values of public equity markets. The Company is exposed to equity price risk primarily related to equity investments held in the Nuclear Funds that are classified on the consolidated balance sheets as held-for-trading and measured at fair value. To manage the long-term risk associated with equity prices, OPG and the Province have established investment policies and procedures that specify permitted investments and investment constraints for the Nuclear Funds. Such policies and procedures are approved annually by OPG and the Province.

Under the ONFA, the annual return in the Used Fuel Fund is guaranteed by the Province for funding related to the first 2.23 million of used fuel bundles. As at December 31, 2011, OPG had made total contributions of approximately $311 million towards incremental fuel bundles in excess of the 2.23 million threshold prescribed in the ONFA. As prescribed under the ONFA, earnings related to OPG's contributions for incremental fuel bundles are exposed to equity price risk. OPG is exposed to equity price risk in the Decommissioning Fund. Due to the long-term nature of the Decommissioning Fund's liabilities, the target asset mix of the Fund was established with the objective of meeting the long-term liabilities. As such, the Company is prepared to accept short-term market fluctuations with the expectation that equity securities in the long run will generate the return required to satisfy the obligations.

The performance of the Nuclear Funds related to stations leased to Bruce Power L.P. is subject to the Bruce Lease Net Revenues Variance Account established by the OEB. The variance account partially mitigates risk related to the Nuclear Funds as it captures the differences between actual and forecast earnings from the Nuclear Funds as they relate to the nuclear generating stations leased to Bruce Power L.P. Forecast earnings refer to those approved by the OEB in setting regulated nuclear prices.

The table below approximates the potential dollar impact on OPG's pre-tax profit, associated with a one percent change in the specified equity indices. This analysis is based on the market values of the Decommissioning Fund's equity holdings at December 31, 2011, as well as on the assumption that when one equity index changes by one percent, all other equity indices are held constant.

(millions of dollars)	2011
S&P/TSX Capped Composite Index	11
S&P 500	5
MSCI EAFE Index	4
MSCI World Index	6

Risk Associated with Leases and Partnership Arrangements

OPG has leased its Bruce nuclear generating stations to Bruce Power L.P. and is also a party to a number of partnerships which operate generating stations such as Brighton Beach and the PEC. Each of these generating stations are subject to numerous operational, financial, regulatory, and environmental risk factors. Although OPG may not be involved in the day to day operations of these stations, counterparty claims, defaults, or other risk factors could materially and adversely affect the Company.

In addition, under the Bruce Lease, lease revenue is reduced in each calendar year where the annual arithmetic average of the Hourly Ontario Electricity Price ("Average HOEP") falls below $30/MWh and certain other conditions are met. The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative according to Section 3855. Derivatives are measured at fair value and changes in fair value are recognized in the consolidated statements of income. The exposure will continue until the Bruce units that are subject to this mechanism are no longer in operation, specific units are refurbished, or when the lease agreement is terminated. This exposure is mitigated as part of the OEB regulatory process, since the revenue from the lease of the Bruce generating stations is included in the determination of regulated prices and is subject to the Bruce Lease Net Revenues Variance Account.

Derivatives and Hedging

At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. OPG also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such a derivative instrument hedge ceases to be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are recognized in income in the current period. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income.

Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of derivative instruments designated as hedges.

(millions of dollars – except where noted)	Notional Quantity	Terms	Fair Value	Notional Quantity	Terms	Fair Value
		December 31, 2011			December 31, 2010	
Floating-to-fixed interest rate hedges	**32**	**1 – 8 years**	**(5)**	35	1 - 9 years	(4)
Forward start interest rate hedges	**760**	**1 – 13 years**	**(115)**	375	1 - 12 years	(21)

OPG has entered into a number of forward start interest rate swap agreements to hedge against the effect of changes in interest rates for long-term debt for the Niagara Tunnel. In 2011, the LME entered into forward start interest rate swaps to hedge against the effect of future changes in interest rates for long-term debt for the Lower Mattagami project.

One of the Company's joint ventures is exposed to changes in interest rates. The joint venture entered into an interest rate swap to manage the risk arising from fluctuations in interest rates by swapping the short-term floating interest rate with a fixed rate of 5.33 percent. OPG's proportionate interest in the swap is 50 percent and is accounted for as a hedge.

Net losses of $6 million, which include the impact of income taxes, related to derivative instruments qualifying for hedge accounting were recognized in net income during the year ended December 31, 2011 (2010 - net gains of $6 million). Existing net losses of $7 million deferred in accumulated other comprehensive loss at December 31, 2011 are expected to be reclassified to net income within the next 12 months.

Derivative Instruments Not Qualifying for Hedge Accounting

The carrying amount (fair value) of commodity derivative instruments not designated for hedging purposes is as follows:

	Notional Quantity	Fair Value	Notional Quantity	Fair Value
(millions of dollars - except where noted)	**December 31, 2011**		December 31, 2010	
Commodity derivative instruments				
Assets	**2.3 TWh**	**4**	1.7 TWh	3
Liabilities	**0.2 TWh**	**(1)**	0.07 TWh	-
Total		**3**		3

Forward pricing information is inherently uncertain and therefore the fair values of derivative instruments may not accurately represent the cost to enter into these positions. To address the impact of some of this uncertainty on trading positions, OPG established liquidity reserves against the mark-to-market gains or losses of these positions. These reserves did not impact trading revenue during the year ended December 31, 2011 (2010 - an increase of $1 million).

The fair value of the derivative liability embedded in the terms of the Bruce Lease was $186 million as at December 31, 2011 (2010 - $163 million). This increase in the fair value of the derivative liability was primarily due to a decrease in expected future annual Average HOEP. The pre-tax income statement impact as a result of changes in the liability is offset by the pre-tax income statement impact of the Bruce Lease Net Revenues Variance Account.

Fair Value Hierarchy

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The level within which the financial asset or liability is classified is determined based on the attribute of significance to the inputs to the fair value measurement. The fair value hierarchy has the following levels:

Level 1: Valuation of inputs is based on unadjusted quoted market prices observed in active markets for identical assets or liabilities

Level 2: Valuation is based on inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Valuation is based on inputs for the asset or liability that are not based on observable market data

The following tables present financial assets and liabilities measured at fair value in accordance with the fair value hierarchy:

	December 31, 2011			
(millions of dollars)	Level 1	Level 2	Level 3	Total
Decommissioning Fund	**2,294**	**2,950**	**98**	**5,342**
Used Fuel Fund	**131**	**6,419**	**6**	**6,556**
Forward start interest rate hedges	**–**	**(115)**	**–**	**(115)**
Commodity derivative instruments	**-**	**1**	**–**	**1**
Investment in OPGV	**16**	**–**	**16**	**32**
Floating-to-fixed interest rate hedges	**–**	**(5)**	**–**	**(5)**
Derivative embedded in the Bruce Lease	**–**	**–**	**(186)**	**(186)**
Total assets and liabilities	**2,441**	**9,250**	**(66)**	**11,625**

	December 31, 2010			
(millions of dollars)	Level 1	Level 2	Level 3	Total
Decommissioning Fund	2,540	2,698	29	5,267
Used Fuel Fund	83	5,895	1	5,979
Forward start interest rate hedges	–	(21)	–	(21)
Commodity derivative instruments	-	–	–	–
Investment in OPGV	13	–	17	30
Floating-to-fixed interest rate hedges	–	(4)	–	(4)
Derivative embedded in the Bruce Lease	–	–	(163)	(163)
Total assets and liabilities	2,636	8,568	(116)	11,088

During the year ended December 31, 2011, there were no transfers between Level 1 and Level 2. A $1 million transfer occurred from Level 1 to Level 3 as a result of an investment no longer being actively traded.

Fair value is the value that a financial instrument can be closed out or sold in an arm's length transaction with a willing and knowledgeable counterparty. The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by OPG is the current bid price. These instruments are included in Level 1 and are comprised primarily of equity investments and fund investments.

For financial instruments which do not have quoted market prices directly available, fair values are estimated using forward price curves developed from observable market prices or rates which may include the use of valuation techniques or models based, wherever possible, on assumptions supported by observable market prices or rates prevailing at the dates of the consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques were used to value these instruments. Significant Level 3 inputs include recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors.

The following table presents the changes in OPG's assets and liabilities measured at fair value based on Level 3 during 2011.

	December 31, 2011			
(millions of dollars)	Decom-missioning Fund	Used Fuel Fund	Investments in OPGV	Derivative Embedded in the Bruce Lease
Opening balance	**29**	**1**	**17**	**(163)**
Total gains (losses) included in net income[1]	**3**	**–**	**3**	**(23)**
Purchases, sales, issues and settlements	**65**	**5**	**(4)**	**–**
Transfers into Level 3	**1**	**–**	**–**	**–**
Closing balance	**98**	**6**	**16**	**(186)**

[1] Total gains (losses) exclude the impact of regulatory assets and liabilities.

	December 31, 2010			
(millions of dollars)	Decom-missioning Fund	Used Fuel Fund	Investments in OPGV	Derivative Embedded in the Bruce Lease
Opening balance	–	–	17	(118)
Total losses included in net income[1]	(1)	–	–	(45)
Purchases, sales, issues and settlements	30	1	–	–
Closing balance	29	1	17	(163)

[1] Total losses exclude the impact of regulatory assets and liabilities.

Sensitivity Analysis

Assumptions related to future electricity prices impacts the valuation of the derivative liability embedded in the Bruce Lease as at December 31, 2011. The effect of changing inputs to reasonably possible alternative assumptions is presented in the table below. This sensitivity analysis is determined based on the existing assessment of market conditions with consideration of historical changes in electricity prices.

(millions of dollars)	Long-term Accounts Payable	Net Income Before Tax[1]
Favourable change in assumptions related to electricity prices	(86)	86
Unfavourable change in assumptions related to electricity prices	39	(39)

[1] Net Income Before Tax excludes the impact of regulatory assets and liabilities.

The volatilities of OPG's investments in the Decommissioning Fund, the Used Fuel Fund and OPGV that were classified as Level 3 were not considered significant. As such, a sensitivity analysis on these investments resulted in a negligible change in the fair value.

Liquidity Risk

OPG's derivative and non-derivative liabilities include current accounts payable, floating-to-fixed interest rate hedges, and long-term debt. The contractual maturity of long-term debt is disclosed in Notes 8 and 16.

Liquidity risk arises through excess financial obligations over available financial assets, due at any point in time. The Company's approach to managing liquidity is to continuously monitor its ability to maintain sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

NOTE 14 CAPITAL MANAGEMENT

The Board of Directors' objectives when managing capital are to safeguard the Company's assets and its ability to operate on a commercial basis, while undertaking future development projects that provide an adequate return to the shareholder, and benefits to other stakeholders. The Company attempts to maintain an optimal capital structure and minimize the cost of capital.

The Company is owned 100 percent by the Province. To minimize its cost of capital, the Company targets financial metrics consistent with an investment grade credit rating. This provides the Company with access to capital markets in the future, while targeting a low cost of debt financing.

The Company monitors capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, including long-term debt due within one year, long-term debt and the amount of the Letters of Credit. Total capitalization is calculated as total debt plus total shareholder's equity as shown in the consolidated balance sheets. A financial covenant in OPG's $1 billion revolving committed bank credit facility requires OPG to maintain, on a fully consolidated basis, a ratio of debt to total capitalization of not greater than 0.65:1.0 at any time.

As per the OEB's 2008 and March 2011 decisions on OPG's regulated prices, the deemed capital structure for the regulated business is 53 percent debt and 47 percent equity.

The table below summarizes OPG's debt to total capitalization position as at December 31:

(millions of dollars)	**2011**	2010
Long-term debt due within one year	**413**	385
Long-term debt	**4,484**	3,843
Letters of Credit[1]	**305**	281
Total debt	**5,202**	4,509
Total shareholder's equity	**8,393**	8,085
Total capitalization	**13,595**	12,594
Total debt to total capitalization	**38%**	36%

[1] The NWMO Letter of Credit of $3 million (2010 - $2 million) was excluded.

There were no changes in the Company's approach to capital management during the year ended December 31, 2011.

NOTE 15 COMMON SHARES

As at December 31, 2011 and 2010, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Any issue of new shares is subject to the consent of OPG's shareholder.

NOTE 16 COMMITMENTS AND CONTINGENCIES

Litigation

Various legal proceedings are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of its business activities.

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of $500 million was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited (together "British Energy"). The British Energy claim against OPG pertains to corrosion in the Bruce Unit 8 Steam Generators, in particular, erosion of the support plates through which the boiler tubes pass. The claim amount includes $65 million due to an extended outage to repair some of the alleged damage. The balance of the amount claimed is based on an increased probability the steam generators will have to be replaced or the unit taken out of service prematurely. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001.

British Energy is involved in arbitration with the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the current owners when they purchased British Energy's interest in Bruce Power L.P. (the "Arbitration"). If British Energy is successful in defending against the Arbitration claim, they will not have suffered any damages to attempt to recoup from OPG. This Arbitration commenced on April 5, 2010. The Arbitration closing arguments were completed in the third quarter of 2011. It may take some time for the arbitrator to come to a decision after the completion of the closing arguments.

British Energy previously indicated that they did not require OPG or Bruce Power L.P. to actively defend the court action until the conclusion of the Arbitration. Although the Arbitration had not concluded, British Energy requested that OPG file a Statement of Defense. OPG and Bruce Power L.P. advised British Energy that if British Energy wishes the court action to proceed prior to the conclusion of the Arbitration, the defendants would bring a motion for a Stay of proceedings, a Dismissal of the current action or, in the alternative, a motion to extend the time for service of the Statement of Defense until the conclusion of the Arbitration. That motion was scheduled to be heard on March 5, 2010 but was adjourned at the request of British Energy. The return date of that motion is yet to be set.

During the third quarter of 2011, OPG settled a claim and arbitration with a certain First Nation in one settlement agreement. OPG was directed by its Shareholder to pay a part of the Shareholder's portion of the settlement liability on its behalf. As a result, OPG recorded a distribution of $14 million to the First Nation, which was recorded as a reduction to retained earnings in the third quarter of 2011. This settlement did not have a material impact on the Company's financial position.

Certain other First Nations have commenced actions against OPG for interference with their respective reserve and traditional land rights. As well, OPG has been brought into certain actions by the First Nations against other parties as a third party defendant. Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably. While it is not possible to determine the ultimate outcome of the various pending actions, it is the Company's belief that their resolution is not likely to have a material adverse impact on its financial position.

Environmental

Current operations are subject to regulation with respect to emissions to air, water, and land as well as other environmental matters by federal, provincial, and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its consolidated financial statements to meet certain other environmental obligations. During 2011, a reduction of $19 million to the environmental liabilities was recognized related to the Regulated – Hydroelectric segment. As at December 31, 2011, OPG's environmental liabilities were $19 million (2010 – $39 million).

Guarantees

As part of normal business, OPG and certain of its subsidiaries and joint ventures enter into various agreements providing financial or performance assurance to third-parties on behalf of certain subsidiaries. Such agreements include guarantees, standby Letters of Credit and surety bonds.

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at December 31, 2011, are as follows:

(millions of dollars)	2012	2013	2014	2015	2016	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	227	191	171	170	113	334	1,206
Contributions under the ONFA[1]	240	157	94	96	84	578	1,249
Long-term debt repayment	415	14	15	605	286	3,568	4,903
Interest on long-term debt	239	223	222	215	200	1,300	2,399
Unconditional purchase obligations	103	102	101	99	11	37	453
Operating lease obligations	27	30	30	32	31	-	150
Operating licence	36	36	36	1	1	-	110
Pension contributions[2]	370	315	-	-	-	-	685
Other[3]	98	41	92	37	17	117	402
Significant commercial commitments:	1,755	1,109	761	1,255	743	5,934	11,557
Niagara Tunnel	176	40	-	-	-	-	216
Lower Mattagami	546	490	181	38	-	-	1,255
Total	2,477	1,639	942	1,293	743	5,934	13,028

[1] Contributions under the ONFA are based on the 2007 - 2011 reference plan approved in 2006.

[2] The pension contributions include ongoing funding requirements, and additional funding requirements towards the deficit, in accordance with the actuarial valuations of the OPG and NWMO registered pension plans as at January 1, 2011. The next actuarial valuations of the OPG and NWMO plans must have effective dates no later than January 1, 2014 and 2012, respectively. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2013 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The amount of OPG's additional voluntary contribution, if any, is revisited on an annual basis.

[3] Includes contractual obligations related to the Darlington Refurbishment project up to March 2, 2012.

Niagara Tunnel

As of December 31, 2011, tunnel boring machine ("TBM") mining activity was completed and the TBM disassembly is in progress. Some uncertainty with respect to the cost and schedule for the liner installation will continue. Notwithstanding the uncertainty, the Niagara Tunnel is expected to be completed within the approved budget of $1.6 billion and the approved project completion date of December 2013.

The capital project expenditures for the year ended December 31, 2011 were $264 million and the life-to-date capital expenditures were $1.1 billion. The project is debt financed through the OEFC. During 2010, OPG executed an amendment to the Niagara Tunnel project credit facility with the OEFC to finance the project for up to $1.6 billion.

Lower Mattagami

Construction activities on the Lower Mattagami River commenced in June 2010 to add one additional generating unit at each of the existing Little Long, Harmon and Kipling stations. In addition, OPG will replace the existing Smoky Falls generating station with a new three-unit station. Upon completion in June 2015, the project is expected to increase the capacity of the four stations on the Lower Mattagami River by 438 MW.

The capital project expenditures for the year ended December 31, 2011 were $474 million and the life-to-date expenditures were $766 million. The project budget of $2.6 billion includes the design-build contract as well as contingencies, interest and other OPG costs, including project management, contract management, impact agreements with First Nations, and transmission connection costs.

Darlington Refurbishment Project

On March 1, 2012, OPG awarded the retube and feeder replacement contract, which includes the planning, design, testing of tooling, design and construction of a full scale reactor mock-up facility for testing and training, and removal and replacement of major reactor components of the four reactors at the Darlington generating station. The contract will be completed in two phases - a definition phase and an execution phase. The contract value during the definition phase is estimated at over $600 million for a period of three to four years. The execution phase work, which is still to be estimated and valued, includes removal and replacement of the 480 pressure tubes and calandria tubes, and 960 feeder pipes for each of the station's four reactors.

Other Commitments

The Company maintains labour agreements with the Power Workers' Union and The Society of Energy Professionals; the agreements are effective until March 31, 2012 and December 31, 2012, respectively. As at December 31, 2011, OPG had approximately 11,400 regular employees and about 89 percent of its regular labour force is covered by the collective bargaining agreements.

Contractual and commercial commitments as noted exclude certain purchase orders as they represent purchase authorizations rather than legally binding contracts and are subject to change without significant penalties.

Proxy Property Taxes

In November 2005, OPG received a letter from the Ministry of Finance indicating its intent to recommend to the Minister of Finance that an Ontario regulation covering proxy property taxes be updated retroactive to April 1, 1999 to reflect reassessments and appeal settlements of certain OPG properties since that date. OPG continues to monitor the resolution to this issue with the Ministry of Finance as updates to the regulation may not occur for several years. OPG has not recorded any amounts relating to this anticipated regulation change.

NOTE 17 OTHER (GAINS) LOSSES

(millions of dollars)	**2011**	2010
Reduction to an environmental provision (NOTE 16)	**(19)**	-
Change in estimated cost required to decommission thermal generating stations	**(3)**	-
ABCP (NOTE 4)	**-**	3
Other	**(7)**	2
Other (gains) losses	**(29)**	5

NOTE 18 BUSINESS SEGMENTS

OPG has five reportable business segments. The business segments are Regulated - Nuclear Generation, Regulated - Nuclear Waste Management, Regulated - Hydroelectric, Unregulated - Hydroelectric, and Unregulated - Thermal.

Regulated - Nuclear Generation Segment

OPG's Regulated - Nuclear Generation business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that it owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations. This business segment also includes revenue under the terms of a lease arrangement and related agreements with Bruce Power L.P. related to the Bruce nuclear generating stations. This revenue includes lease revenue and revenue from services such as heavy water sales and detritiation. Revenue is also earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control and reactive support. Revenues from isotope sales and ancillary services are included in the computation of the regulated prices for OPG's nuclear facilities by the OEB.

Bruce Nuclear Generating Stations

In May 2001, the Company leased its Bruce A and Bruce B nuclear generating stations to Bruce Power L.P. until 2018, with options to renew for up to 25 years.

During 2011, OPG recorded lease revenue related to the Bruce generating stations of $237 million (2010 - $232 million). The net book value of fixed assets on lease to Bruce Power L.P. at December 31, 2011 was $1,317 million (2010 - $855 million).

Regulated – Nuclear Waste Management

OPG's Regulated - Nuclear Waste Management segment engages in the management of used nuclear fuel and low and intermediate level waste, the decommissioning of OPG's nuclear generating stations (including the stations on lease to Bruce Power L.P.), the management of the Nuclear Funds, and related activities including the inspection and maintenance of the waste storage facilities. Accordingly, accretion expense on the Nuclear Liabilities and earnings from the Nuclear Funds are reported under this segment.

As the nuclear generating stations operate over time, OPG incurs variable costs related to nuclear used fuel and low and intermediate level waste generated. These costs increase the Nuclear Liabilities through the generation of additional used nuclear fuel bundles and other waste. These variable costs are charged to current operations in the Regulated - Nuclear Generation segment in order to reflect the cost of producing energy and the earning of revenue under the Bruce Power lease arrangement and related agreements. Since variable costs increase the Nuclear Liabilities in the Regulated - Nuclear Waste Management segment, OPG records an inter-segment charge between the Regulated - Nuclear Generation and the Regulated - Nuclear Waste Management segments. The impact of the inter-segment charge between these segments is eliminated on OPG's consolidated statements of income and consolidated balance sheets.

The Regulated - Nuclear Waste Management segment is considered regulated because the costs associated with the Nuclear Liabilities are included in the determination of regulated prices for production from OPG's regulated nuclear facilities by the OEB.

Regulated – Hydroelectric Segment

OPG's Regulated - Hydroelectric business segment operates in Ontario, generating and selling electricity from most of the Company's baseload hydroelectric generating stations. The business segment is comprised of electricity generated by the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. Ancillary revenues are earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities, automatic generation control, and other services. These ancillary revenues are included in the computation of the regulated prices for these facilities by the OEB.

Unregulated – Hydroelectric Segment

The Unregulated - Hydroelectric business segment operates in Ontario, generating and selling electricity from its hydroelectric generating stations, which are not subject to rate regulation. Ancillary revenues are earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control and reactive support, certified black start facilities, automatic generation control, and other services.

Unregulated – Thermal Segment

The Unregulated - Thermal business segment operates in Ontario, generating and selling electricity from its thermal generating stations, which are not subject to rate regulation. Ancillary revenues are earned through offering available generating capacity as operating reserve, and the supply of other ancillary services including voltage control and reactive support, automatic generation control, and other services.

Other

The Other category includes revenue that OPG earns from its 50 percent joint venture share of Brighton Beach related to an energy conversion agreement between Brighton Beach and Shell Energy North America (Canada) Inc. This category also includes OPG's share of joint venture revenues and expenses from the PEC gas-fired generating station, which is co-owned with TransCanada Energy Ltd. In addition, the Other category includes revenue from real estate rentals.

The revenue and expenses related to OPG's trading and other non-hedging activities are also included in the Other category. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in Other category revenue.

OM&A expenses of the generation segments include an inter-segment service fee for the use of certain property, plant and equipment, and intangible assets held within the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. The service fee included in OM&A expenses by segment for the years ended December 31 is as follows:

(millions of dollars)	**2011**	2010
Regulated - Nuclear Generation	**22**	25
Regulated - Hydroelectric	**2**	2
Unregulated - Hydroelectric	**4**	3
Unregulated - Thermal	**7**	8
Other	**(35)**	(38)

Segment Income (Loss) for the Year Ended **December 31, 2011** (millions of dollars)	Regulated			Unregulated				
	Nuclear Generation	Nuclear Waste Management	Hydroelectric	Hydroelectric	Thermal	Other	Elimination	Total
Revenue	**3,064**	**57**	**729**	**492**	**608**	**166**	**(55)**	**5,061**
Fuel expense	**243**	**-**	**261**	**75**	**175**	**-**	**-**	**754**
Gross margin	**2,821**	**57**	**468**	**417**	**433**	**166**	**(55)**	**4,307**
Operations, maintenance and administration	**1,964**	**65**	**108**	**236**	**414**	**24**	**(55)**	**2,756**
Depreciation and amortization	**473**	**-**	**38**	**75**	**88**	**49**	**-**	**723**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**695**	**-**	**-**	**7**	**-**	**-**	**702**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(509)**	**-**	**-**	**-**	**-**	**-**	**(509)**
Property and capital taxes (recovery)	**26**	**-**	**-**	**(2)**	**15**	**12**	**-**	**51**
Restructuring	**-**	**-**	**-**	**-**	**21**	**-**	**-**	**21**
Other (gains) losses	**(3)**	**-**	**(19)**	**(2)**	**20**	**(25)**	**-**	**(29)**
Income (loss) before interest and income taxes	**361**	**(194)**	**341**	**110**	**(132)**	**106**	**-**	**592**

Segment Income (Loss) for the Year Ended December 31, 2010 (millions of dollars)	Regulated			Unregulated				
	Nuclear Generation	Nuclear Waste Management	Hydroelectric	Hydroelectric	Thermal	Other	Elimination	Total
Revenue	3,030	45	734	497	936	168	(43)	5,367
Fuel expense	185	–	246	64	405	–	–	900
Gross margin	2,845	45	488	433	531	168	(43)	4,467
Operations, maintenance and administration	2,104	52	99	230	453	18	(43)	2,913
Depreciation and amortization	398	–	62	70	99	59	–	688
Accretion on fixed asset removal and nuclear waste management liabilities	–	653	–	–	7	–	–	660
Earnings on nuclear fixed asset removal and nuclear waste management funds	–	(668)	–	–	–	–	–	(668)
Property and capital taxes	39	–	11	4	13	10	–	77
Restructuring	–	–	–	–	27	–	–	27
Other losses	2	–	–	–	–	3	–	5
Income (loss) before interest and income taxes	302	8	316	129	(68)	78	–	765

Selected Consolidated Balance Sheet Information as at **December 31, 2011** (millions of dollars)	Regulated			Unregulated			
	Nuclear Generation	Nuclear Waste Management	Hydroelectric	Hydroelectric	Thermal	Other	Total
Segment fixed assets in service, net	**4,745**	**–**	**3,749**	**3,333**	**204**	**727**	**12,758**
Segment construction in progress	**295**	**–**	**1,146**	**847**	**15**	**14**	**2,317**
Segment property, plant and equipment, net	**5,040**	**–**	**4,895**	**4,180**	**219**	**741**	**15,075**
Segment intangible assets in service, net	**17**	**–**	**–**	**5**	**1**	**17**	**40**
Segment development in progress	**6**	**–**	**–**	**–**	**–**	**4**	**10**
Segment intangible assets, net	**23**	**–**	**–**	**5**	**1**	**21**	**50**
Segment materials and supplies inventory, net:							
Short-term	**68**	**–**	**–**	**–**	**14**	**2**	**84**
Long-term	**348**	**–**	**–**	**1**	**31**	**–**	**380**
Segment fuel inventory	**354**	**–**	**–**	**–**	**301**	**–**	**655**
Nuclear fixed asset removal and nuclear waste management funds	**–**	**11,898**	**–**	**–**	**–**	**–**	**11,898**
Fixed asset removal and nuclear waste management liabilities	**–**	**(14,060)**	**–**	**–**	**(153)**	**(6)**	**(14,219)**

Selected Consolidated Balance Sheet Information as at December 31, 2010 (millions of dollars)	Regulated			Unregulated			
	Nuclear Generation	Nuclear Waste Management	Hydroelectric	Hydroelectric	Thermal	Other	Total
Segment fixed assets in service, net	3,963	–	3,750	3,324	282	759	12,078
Segment construction in progress	174	–	913	367	20	3	1,477
Segment property, plant and equipment, net	4,137	–	4,663	3,691	302	762	13,555
Segment intangible assets in service, net	18	–	–	2	1	19	40
Segment development in progress	3	–	–	–	–	5	8
Segment intangible assets, net	21	–	–	2	1	24	48
Segment materials and supplies inventory, net:							
Short-term	65	–	–	–	19	1	85
Long-term	364	–	–	1	35	–	400
Segment fuel inventory	337	–	–	–	397	–	734
Nuclear fixed asset removal and nuclear waste management funds	–	11,246	–	–	–	–	11,246
Fixed asset removal and nuclear waste management liabilities	–	(12,547)	–	–	(151)	(6)	(12,704)

Selected Consolidated Cash Flow Information (millions of dollars)	Regulated			Unregulated			
	Nuclear Generation	Nuclear Waste Management	Hydroelectric	Hydroelectric	Thermal	Other	Total
Year ended December 31, 2011							
Investment in fixed and intangible assets	**239**	**–**	**297**	**566**	**9**	**34**	**1,145**
Year ended December 31, 2010							
Investment in fixed and intangible assets	211	–	272	442	23	30	978

NOTE 19 RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, Infrastructure Ontario, the OPA and the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

These transactions for the years ended December 31 are summarized below:

(millions of dollars)	2011		2010	
	Revenue	**Expenses**	Revenue	Expenses
Hydro One				
Electricity sales	**16**	**–**	18	–
Services	**–**	**13**	–	16
Province of Ontario				
GRC, water rentals and land tax	**–**	**122**	–	116
Guarantee fee	**–**	**8**	–	7
Used Fuel Fund rate of return guarantee	**266**	**–**	–	186
OEFC				
GRC and proxy property tax	**–**	**217**	–	208
Interest expense on long-term notes	**–**	**196**	–	203
Capital tax	**–**	**(10)**	–	11
Income taxes, net of investment tax credits	**–**	**(54)**	–	77
Contingency support agreement	**367**	**–**	258	–
Infrastructure Ontario				
Reimbursement of expenses incurred during the procurement process for new nuclear units	**–**	**(2)**	–	3
IESO				
Electricity sales	**3,983**	**43**	4,215	27
Ancillary services	**55**	**–**	61	–
OPA	**155**	**–**	142	–
	4,842	**533**	4,694	854

As at December 31, 2011, accounts receivable included $3 million (2010 - $3 million) due from Hydro One, $327 million (2010 - $129 million) due from the IESO, and $57 million (2010 - $22 million) due from the OPA. Accounts payable and accrued charges at December 31, 2011 included $7 million (2010 - $2 million) due to Hydro One and $1 million (2010 - $3 million) due to Infrastructure Ontario.

NOTE 20 JOINT VENTURES

Significant joint ventures include Brighton Beach and the PEC, which are 50 percent owned by OPG.

The following condensed information from the consolidated statements of income, cash flows and balance sheets details the Company's share of its investments in joint ventures that have been proportionately consolidated:

(millions of dollars)	2011	2010
Proportionate joint venture operations		
Revenue	**94**	97
Expenses	**(47)**	(62)
Net income	**47**	35
Proportionate joint venture cash flows		
Operating activities	**67**	74
Investing activities	**-**	(3)
Financing activities	**(66)**	(76)
Share of changes in cash and cash equivalents	**1**	(5)
Proportionate joint venture balance sheets		
Current assets	**26**	25
Long-term assets	**526**	553
Current liabilities	**(20)**	(15)
Long-term liabilities	**(160)**	(167)
Share of net assets	**372**	396

NOTE 21 INVESTMENT COMPANY

The Company applied CICA Handbook AcG-18 for all investments owned by OPGV. OPGV is a wholly owned subsidiary of the Company and its results are included in the Company's consolidated financial statements. The carrying amount of OPGV's investments was $32 million (2010 - $30 million) and the amount was included as long-term investments on the consolidated balance sheets.

As a result of the application of AcG-18, the Company's net income and other assets for 2011 increased by $6 million (2010 - decreased by $1 million). The net realized gains on the investments held by OPGV were $1 million in 2011 (2010 - nil).

The gross unrealized gains and losses on the investments held by OPGV as at December 31, 2011 were $15 million and $23 million, respectively. The gross unrealized gains and losses on the investments held by OPGV as at December 31, 2010 were $11 million and $25 million, respectively.

NOTE 22 RESEARCH AND DEVELOPMENT

For the year ended December 31, 2011, research and development expenses of $125 million (2010 - $127 million) were charged to operations.

NOTE 23 NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**2011**	2010
Accounts receivable	**(190)**	101
Prepaid expenses	**15**	5
Fuel inventory	**79**	103
Materials and supplies	**1**	47
Accounts payable and accrued charges	**58**	(189)
Income and capital taxes recoverable/payable	**10**	(20)
	(27)	47

NOTE 24 NON-CONTROLLING INTEREST

OPG has entered into a partnership agreement with the Lac Seul First Nation ("LSFN") regarding the 12.5 MW Lac Seul generating station. In July 2009, OPG transferred ownership of the station to the Lac Seul LP partnership. OPG has a 75 percent ownership interest in the partnership, while the LSFN has a 25 percent interest.

OPG consolidates the results of the Lac Seul LP and the non-controlling interest represents the LSFN's 25 percent ownership interest in the partnership.

NOTE 25 RESTRUCTURING

Restructuring charges of $21 million were recorded in 2011 due to the recognition of severance costs related to the closure of two additional coal-fired units at the Nanticoke generating station in 2011, consistent with the Energy Plan and Supply Mix Directive. During 2010, restructuring charges of $27 million were recorded due to the recognition of severance costs related to the closure of two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. OPG conducted discussions with key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, in accordance with their respective collective bargaining agreements.

The change in the restructuring liability for severance costs during 2011 and 2010 is as follows:

(millions of dollars)	
Liability, January 1, 2010	–
Restructuring charges during the year	27
Payments during the year	(12)
Liability, December 31, 2010	15
Restructuring charges during the year	21
Payments during the year	(13)
Liability, December 31, 2011	**23**

TRUSTS AND MISCELLANEOUS STATEMENTS

Deposit Insurance Corporation of Ontario

2011 ANNUAL REPORT

Management's Responsibility

The Deposit Insurance Corporation of Ontario's management is responsible for the integrity and fair presentation of the financial statements included in the annual report. The financial statements have been prepared in conformity with International Financial Reporting Standards.

The Corporation maintains systems of internal accounting controls of high quality consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the Corporation's assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the Corporation's Audit and Finance Committee and have been approved by its Board of Directors. In addition, the financial statements have been examined by KPMG LLP, the auditors, whose report follows.

Andrew

Andrew (Andy) Poprawa, CA, C.Dir.
President & CEO

James Maxwell, CHRP, FLMI
Chief Administrative and Financial Officer

Toronto, Canada

March 21, 2012

Independent Auditors' Report

KPMG LLP

To the Board of Directors of Deposit Insurance Corporation of Ontario

We have audited the financial statements of Deposit Insurance Corporation of Ontario ("the Corporation"), which are comprised of the Statement of Financial Position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the Statement of Operations and Changes in the Deposit Insurance Reserve Fund, Comprehensive Income, Changes in Equity and Cash Flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Deposit Insurance Corporation of Ontario as at December 31, 2011, December 31, 2010 and January 1, 2010 and the results of its financial performance and Cash Flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
March 21, 2012
Toronto, Canada

Deposit Insurance Corporation of Ontario

Statement of Financial Position

(in thousands of dollars)	*Note 16*	**December 31, 2011**	December 31, 2010	January 01, 2010
ASSETS				
Current assets				
Cash and cash equivalents		**$ 1,710**	$ 1,867	$ 1,313
Investments	5	**92,294**	68,390	85,885
Premiums receivable		**4,002**	3,940	3,714
Prepaid expenses and other receivables		**1,002**	318	159
Total current assets		**99,008**	74,515	91,071
Non-current assets				
Deposit insurance advances recoverable		**27,333**	32,632	15,261
Property, plant and equipment, net	7	**517**	1,416	1,238
Intangible assets, net	8	**795**	-	-
Other investments	5	**517**	-	-
Total Non-current Assets		**29,162**	34,048	16,499
Total assets		**$ 128,170**	$ 108,563	$ 107,570
LIABILITIES				
Current liabilities				
Payables and accruals		**$ 649**	$ 646	$ 693
Deferred premium income		**4,178**	3,893	3,776
Total current liabilities		**4,827**	4,539	4,469
Non-current liabilities				
Payables and accruals		**934**	941	948
Employee benefits	9	**3,703**	3,206	2,773
Accrual for deposit insurance claims	6	**5,286**	5,275	17,871
Total non-current liabilities		**9,923**	9,422	21,592
Total Liabilities		**$ 14,750**	$ 13,961	$ 26,061
EQUITY				
Accumulated other comprehensive income		**$ 216**	$ 49	$ 16
Deposit Insurance Reserve Fund		**113,204**	94,553	81,493
Total Equity		**$ 113,420**	$ 94,602	$ 81,509
Total Liabilities and Equity		**$ 128,170**	$ 108,563	$ 107,570

See accompanying notes to financial statements.

On behalf of the Board:

__________________ Director

C.E. Litton __________ Director

Deposit Insurance Corporation of Ontario

Statement of Operations and Changes in the Deposit Insurance Reserve Fund

(in thousands of dollars)		Year ended December 31,	
	Notes	**2011**	2010
INCOME			
Premium income	*4*	**$ 24,342**	$ 21,196
Other income		**865**	516
		25,207	21,712
EXPENSES			
Salaries and benefits		**5,975**	5,103
Operating expenses		**2,804**	2,434
Recovery of operating expenses		**(2,126)**	(391)
		6,653	7,146
Excess of income over operating expenses		**18,554**	14,566
(Recovery) provision of losses	*6*	**(97)**	1,506
Excess of income over expenses		**18,651**	13,060
Deposit Insurance Reserve Fund, beginning of year		**94,553**	81,493
Deposit Insurance Reserve Fund, end of year		**$ 113,204**	$ 94,553

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Statement of Comprehensive Income

(in thousands of dollars)	Year ended December 31, 2011	2010
Excess of income over expenses	**$ 18,651**	$ 13,060
Other comprehensive income:		
Unrealized gains on available-for-sale investments	**42**	33
Unrealized gains on available-for-sale investments acquired from liquidated institutions	**125**	-
Total other comprehensive income	**167**	33
Comprehensive income	**$ 18,818**	$ 13,093

Statement of Accumulated Other Comprehensive Income

(in thousands of dollars)	Year ended December 31, 2011	2010
Accumulated other comprehensive income, beginning of year	**$ 49**	$ 16
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income	**(49)**	(16)
Unrealized gains on available-for-sale investments	**91**	49
Unrealized gains on available-for-sale investments acquired from liquidated institutions	**125**	-
Net change	**167**	33
Accumulated other comprehensive income, end of year	**$ 216**	$ 49

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Statement of Changes in Equity

(in thousands of dollars)	Unrealized gains/losses on available-for-sale investments *	Deposit Insurance Reserve Fund	Total equity
Balance at January 1, 2010	$ 16	$ 81,493	$ 81,509
Total comprehensive income:			
Excess of income over expenses		13,060	13,060
Other comprehensive income			
Net change in fair value of available-for-sale investments	33		33
Total comprehensive income	33	13,060	13,093
Balance at December 31, 2010	**$ 49**	**$ 94,553**	**$ 94,602**
Balance at January 1, 2011	$ 49	$ 94,553	$ 94,602
Total comprehensive income :			
Excess of income over expenses		18,651	18,651
Other comprehensive income			
Net change in fair value of available-for-sale investments	42		42
Net change in fair value of available-for-sale investments acquired from liquidated institutions	125		125
Total comprehensive income	167	18,651	18,818
Balance at December 31, 2011	**$ 216**	**113,204**	**113,420**

* Accumulated other comprehensive income

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Statement of Cash Flows

(in thousands of dollars)	*Notes*	Year ended December 31, 2011	2010
Cash flows from (used in) operating activities:			
Excess of income over expenses		$ 18,651	$ 13,060
Adjustments for:			
(Recovery) provision of losses		(97)	1,506
Loss on disposal of property, plant and equipment		1	-
Unrealized gains on available-for-sale investments		167	33
Depreciation of property, plant and equipment	*7*	189	196
Amortization of intangible assets	*8*	107	-
		19,018	14,795
Changes in:			
Premiums receivable		(62)	(226)
Prepaid expenses and other receivables		(684)	(159)
Payables and accruals		(4)	(54)
Deferred premium income		285	117
Employee benefits		497	433
		32	111
Net deposit insurance recoveries (advances)	*6*	5,407	(31,473)
		24,457	(16,567)
Cash flows from (used in) investing activities:			
Interest received		819	494
Purchase of investments held at year end		(92,811)	(68,390)
Proceeds on sale of investments		67,571	85,391
Purchase of property, plant and equipment	*7*	(95)	(374)
Purchase of intangible assets	*8*	(98)	-
		(24,614)	17,121
Net increase in cash and cash equivalents		(157)	554
Cash and cash equivalents, beginning of year		1,867	1,313
Cash and cash equivalents, end of year		$ 1,710	$ 1,867

Cash and cash equivalents comprise cash and short-term investments less any borrowings.

See accompanying notes to financial statements.

Deposit Insurance Corporation of Ontario

Notes to Financial Statements Year ended December 31, 2011

1. Reporting entity

Deposit Insurance Corporation of Ontario ("DICO" or "the Corporation") is an "Operational Enterprise" Agency of the Province of Ontario established without share capital under the provisions of the *Credit Unions and Caisses Populaires Act, 1994* (the "Act").

The statutory objects of the Corporation under the Act are to:

- provide deposit insurance to depositors of Ontario credit unions and caisses populaires;
- promote and contribute to the stability of the sector;
- provide insurance while minimizing exposure to loss;
- collect and publish statistics; and
- perform the duties specified in the Act and as directed by the Minister.

The Act empowers the Corporation to assess its insured institutions deposit insurance premiums to meet the Corporation's requirements for insurance funding and administrative costs. The premium rates are set out in the regulation to the Act. The Corporation reviews the adequacy of the premium rate annually and advises the government accordingly.

The Minister of Finance provides DICO with a $250 million line of credit with the Ontario Financing Authority ("OFA") which is due for renewal on December 31, 2013. Under the revolving credit facility arrangement, interest cost on any outstanding debt obligation is charged at an annual rate equal to the province's cost of funds for borrowings with a three-month term, determined by the OFA at the time of the borrowing, plus an additional 0.40 percent per annum.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Corporation's first financial statements prepared in accordance with IFRS and IFRS 1, *First-time Adoption of International Financial Reporting Standards*, has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 16.

(b) Basis of measurement

The Corporation's financial statements have been prepared on the historical cost basis, except for the financial instruments classified as available-for-sale, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in the Corporation's functional currency which is the Canadian dollar. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant areas of assumptions and judgments are disclosed in provisions for losses (note 6) and measurement of accrued benefit obligations relating to future non-pension post-retirement benefits (note 9).

3. Summary of significant accounting policies

To facilitate a better understanding of our financial statements, the Corporation has disclosed its significant accounting policies as summarized below. These policies have been applied consistently to all periods presented in the financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purpose of the transition to IFRS, unless otherwise indicated.

(a) Premium income

Premiums are based on a Differential Premium Risk Classification System, as defined by regulation applied to insured deposits held by insured institutions. Premium income is calculated based on the Annual Institution Return submitted by the insured institution, which is due 75 days after its fiscal year end. Premium income is recognized when earned.

(b) Provision for losses

The provision for losses includes allowances against deposit insurance advances to insured institutions in liquidation and an accrual for losses for which advances have not been made at the date of the statement of financial position.

Funds advanced in respect of deposit insurance and loans to insured institutions are initially recorded at cost. Deposit insurance advances recoverable are presented on the statement of financial position, net of allowances thereon.

The accrual for deposit insurance claims includes both provisions for specific losses and a general accrual for losses. Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation.

The general accrual for claims reflects management's best estimate of losses on insured deposits arising from the inherent risk in insured institutions. The provision is established by assessing the aggregate risk in insured institutions based on current market and economic conditions, the likelihood of losses and the application of historic loss experience. Future economic conditions are not predictable with certainty and actual losses may vary, perhaps substantially, from management's estimates. In the last quarter of 2010, management introduced a new methodology which evaluates all institutions with the highest risk score under our current prospective risk rating system. The methodology incorporates various iterations and key assumptions, such as historical probabilities of failures (from the Deposit Insurance Reserve Fund "DIRF" model) and actual probabilities of failure when possible. The model also categorizes the institutions based on asset size and discounts the estimated loss to the next 12 month period.

Model results are then considered along with the level of existing allowance, as well as management's judgement regarding economic and market conditions to come to a final determination of what the general accrual for claims should be.

(c) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into an independent entity and will have no legal or constructive obligation to pay further amounts. DICO's defined contribution pension plan covers all of DICO's regular, non-contractual employees. As well, there are supplemental arrangements which provide pension benefits for income in excess of registered pension plan limits. Earnings are charged with the cost of pension benefits earned by employees as service is rendered. A prepaid asset was recognized to account for those employees who have not met the vesting period of 2 years. Pension expense is determined by a fixed percentage of the employees' income plus the matching of the employees' contribution to a maximum of 4%. The Corporation assumes no actuarial or investment risk.

(ii) Defined benefit plans

The Corporation provides future non-pension post-retirement benefits which relate to DICO's extended health, dental and life benefits for both active employees for whom a full eligibility date was determined and existing qualified retirees. The Corporation accrues obligations under these plans as the employees render the service necessary to earn the future benefits and the benefit is discounted to determine its present value. There are no assets set aside to fund the benefits. The accrued benefits obligation is calculated annually by a qualified actuary using the projected unit benefit method prorated on service. Cumulative gains and losses in excess of 10% of the beginning of the year defined benefits obligations are amortized over the expected average remaining service of active members.

(iii) Other long-term employee benefits

The Corporation's other obligation in respect of long-term employee benefits is the amount of retention benefits accrued for some key employees. The plans are designed to ensure the retention of key personnel to provide sufficient time for effective succession planning. Acceptance of the benefits is voluntary and the probabilities of acceptance are estimated at the end of the reporting period. The benefits are discounted to their present value if they are payable more than 12 months after the reporting period.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Corporation recognizes the unused entitlement of compensated vacations that has accumulated at the end of the reporting period as accrued short-term benefits.

(d) Financial instruments

DICO's investments are non-derivative financial assets and are classified, based on management's intentions, as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity. When an investment is derecognized/sold, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to a working condition for their intended use, including the borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized on a net basis within the other income category. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate.

(ii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

Depreciation of furniture and equipment is provided by the diminishing-balance method at the rate of 20 % per annum. Computer and related equipment and software are amortized over three years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(f) Intangible assets

The internally developed web-based software tool for electronic filing of financial data by the insured institutions is recorded as an intangible asset. The expenditure capitalized includes the direct cost of specialized and licensed software and direct labour costs that are attributable to preparing the asset for its intended use. The subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. The capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of 7 years from the date that the assets are available for use.

(g) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(h) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4. Premium income

($000)	2011	2010
	$24,342	$21,196

Differential premiums are calculated based on the amount of each institution's insured deposits at the end of its fiscal year and on various risk criteria which generate a risk rating based on a points system. The higher the points, the lower the premium rate. A revision to the Ontario Regulation 237/09 under the Act regarding the differential premium risk classification and rates was approved in December 2010. The new rates were effective for the insured institutions' financial year starting on or after January 1, 2011. The new rates (per $1,000 of insured deposits) are as follows:

Class	Points	New Rate 2011	Prior Rate 2010
1	85	**$1.00**	$0.90
2	70-84	**$1.15**	$1.00
3	55-69	**$1.40**	$1.15
4	40-54	**$1.75**	$1.40
5	<40	**$3.00**	$2.10

At December 31, 2011, DICO has deferred premium income of $4,178,000, which represents the balance of prorated premiums for the insured institutions whose fiscal year straddles DICO's fiscal year end.

5. Investments

	December 31, 2011			December 31, 2010		
	Amount (*$ thousands*)	**Weighted Average Effective Yield**	**Weighted Average Days to Maturity**	Amount (*$ thousands*)	Weighted Average Effective Yield	Weighted Average Days to Maturity
Treasury bills - Canada	**$54,150**	**0.82%**	**89**	$47,877	0.99%	90
Bankers' acceptances / Bank deposit notes	**38,144**	**1.06%**	**23**	20,513	1.90%	22
Total Current Investments	**$92,294**	**0.85%**	**62**	$68,390	1.07%	70
CUCO Co-op Class B investment shares (acquired from liquidated institutions)	**$ 517**	-	-	-	-	-
Total Other non-current Investment	**$ 517**	-	-	-	-	-

The Corporation's investments are classified as available-for-sale which is measured at fair value with unrealized gains and losses recorded in the statement of accumulated other comprehensive income until the investment is sold.

The current investments have terms to maturity of 90 days or greater on the date of purchase. As of December 31, 2011, these investments have a weighted average yield of 0.85% (2010: 1.07%). The Corporation has contracted with the OFA to manage its investment portfolio. The composition of DICO's investments reflects the nature of the Corporation's potential insurance obligations and is structured to comply with the requirements under both the Income Tax Act (Canada), the Act and Regulation 237/09.

In November 2011, in order to facilitate the orderly wind-down of some credit unions in liquidation, DICO purchased the CUCO Co-op Class B shares held by these credit unions at carrying value of $393 thousand.

Fair value hierarchy

The Corporation uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. As of December 31, 2011, the Corporation's financial instruments were valued as follows:

Available-for-sale financial assets:

($ thousands)	**2011**	2010
Level 1	**$ 92,294**	$ 68,390
Level 2	**$ 517**	-
Level 3	**-**	-
Total	**$ 92,811**	$ 68,390

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. Accrual for deposit insurance claims

The provision for losses includes specific provisions for known or likely losses from specific insured institutions not included in their financial statements and a general accrual for losses not identified with specific institutions. That portion of the provision for losses recorded in the year and in previous years which has not yet required payment by the Corporation is shown in liabilities on the statement of financial position as "Accrual for deposit insurance claims".

	2011	2010
	($ thousands)	
Accrual for deposit insurance claims, beginning of year	**$ 5,275**	$ 17,871
Add: Net (recovery) / provision for insurance losses for the year	**(97)**	1,506
(Decrease) / increase in deposit insurance advances recoverable	**(5,299)**	17,371
Net deposit insurance recoveries (advances)	**5,407**	(31,473)
Accrual for deposit insurance claims, end of year	**$ 5,286**	$ 5,275

Specific provisions for losses in respect of insured deposits are estimated by management and recorded when conditions exist, in management's opinion, that will likely result in losses to the Corporation. The general accrual for losses included in "Accrual for deposit insurance claims" remained at $5,000,000 (2010 - $5,000,000) and is calculated in accordance with the methodology, as described in note 3(b).

7. Property, plant and equipment

($ thousands)	Furniture and Fixture	Office Equipment	Computer and Related Equipment	Software	Leasehold Improvement	Total
Cost or deemed cost						
Balance at January 1, 2010	$ 452	$ 72	$ 1,874	$ 1,253	$ 499	$ 4,150
Additions	34	-	78	262	-	374
Disposals	-	-	(33)	-	-	(33)
Balance at December 31, 2010	**486**	**72**	**1,919**	**1,515**	**499**	**4,491**
Balance at January 1, 2011	486	72	1,919	1,515	499	4,491
Additions	31	3	53	8	-	95
Disposals	(1)	-	(36)	-	-	(37)
Transferred to intangible asset	-	-	-	(804)	-	(804)
Balance at December 31, 2011	**$ 516**	**$ 75**	**$ 1,936**	**$ 719**	**$ 499**	**$ 3,745**
Depreciation						
Balance at January 1, 2010	$ 374	$ 65	$ 1,753	$ 599	$ 120	$ 2,911
Depreciation for the year	21	2	74	49	50	196
Disposals	-	-	(32)	-	-	(32)
Balance at December 31, 2010	**395**	**67**	**1,795**	**648**	**170**	**3,075**
Balance at January 1, 2011	395	67	1,795	648	170	3,075
Depreciation for the year	22	2	71	44	50	189
Disposals	(1)	-	(35)	-	-	(36)
Balance at December 31, 2011	**$ 416**	**$ 69**	**$ 1,831**	**$ 692**	**$ 220**	**$ 3,228**
Carrying amount						
At January 1, 2010	78	7	121	653	379	1,238
At December 31, 2010	91	5	124	867	329	1,416
At January 1, 2011	91	5	124	867	329	1,416
At December 31, 2011	100	6	105	27	279	517

Included in the carrying amount of software totalling $804,000 at December 31, 2010 was the work in progress of internally developed software. The total was transferred to intangible assets as of February 1, 2011.

8. Intangible assets

($ thousands)	**Development Costs**
Cost	
Balance at January 1, 2010	-
Acquisitions (WIP)- internally developed	-
Balance at December 31, 2010	-
Balance at January 1, 2011	-
Transferred from software work in progress	804
Acquisitions - internally developed	98
Balance at December 31, 2011	902
Amortization	
Balance at January 1, 2010	-
Amortization for the year	-
Balance at December 31, 2010	-
Balance at January 1, 2011	-
Amortization for the year	107
Balance at December 31, 2011	107
Carrying amounts	
At January 1, 2010	-
At December 31, 2010	-
At January 1, 2011	-
At December 31, 2011	795

The carrying amount of the intangible asset represents the new web-based software project developed internally. The new electronic filing system was successfully launched effective February 1, 2011.

9. Employee benefits

(i) Pension plan

The Corporation operates a defined contribution registered pension plan for all eligible employees. In addition DICO accrues benefits to a Supplemental Pension Plan and an Auxiliary Pension Plan (both non-registered). The Supplemental Plan provides the same benefit as the registered plan on that portion of an employee's income in excess of the registered plan limits. The Auxiliary Plan provides an additional defined contribution amount for the CEO on his base salary. The total pension expense for the Corporation charged to income in 2011 was $418,000 (2010 - $398,000). Total accrued pension plan benefits as at December 31, 2011 amounted to $1,185,000 (2010 - $1,032,000).

(ii) Future non-pension post-retirement benefits

The Corporation accounts for the current value of future non-pension post-retirement benefits. The accrued benefit liability as at December 31, 2011, as actuarially determined, is $1,849,000 (2010 - $1,740,000). The annual benefit cost, including current service cost, interest and amortization of gains and losses was $155,000 (2010 - $137,000). An updated actuarial valuation for the Corporation's plan was completed for the year ended December 31, 2011.

The assumptions used in the actuarial valuation of the future benefits obligations consisted of: interest rate of 4.5% (2010 - 5.75%), rate of compensation increase of 3.5% (2010 - 3.5%) and initial weighted average trend rate in health and dental costs of 5.75% (2010 - 6.2%), grading down to 4.5 % per annum by 2032. The Corporation measures its accrued benefit obligations as at December 31.

Reconciliation of the Defined Benefit Obligation ("DBO") *($ thousands)*	**2011**	2010
DBO at end of prior year	**$ 1,989**	$ 1,645
Current service cost	**36**	26
Interest cost	**114**	111
Actuarial loss	**561**	249
Benefit payments	**(45)**	(42)
DBO at end of year	**$ 2,655**	**$ 1,989**
Deficit at end of year	**($ 2,655)**	**($ 1,989)**
Unrecognized past service cost	-	-
Unrecognized net actuarial loss	**806**	249
Net liability recognized on statement of financial position at end of year	**($ 1,849)**	**($1,740)**

The Corporation currently uses the corridor approach for recognizing gains and losses. Starting in fiscal 2013, DICO will be required to transition to the other comprehensive income (OCI) approach. With the requirement to provide comparative information, all unrecognized balances will be reflected in retained earnings as at transition date of January 1, 2012. During fiscal 2012, DICO will continue to report using the corridor method for the recognition of gains and losses but will reflect future gains and losses in OCI and not the profit and loss statement starting in fiscal 2013.

The Corporation also implemented a human resources retention plan for key management personnel for the purpose of ensuring effective transition and succession planning. Total accrued retention benefits were $669,000 at December 31, 2011 (2010 - $434,000).

Summary of employees benefit liabilities:

($ thousands)	**December 31, 2011**	December 31, 2010
Employee pension benefits	**$ 1,185**	$ 1,032
Employee future non-pension post-retirement benefits	**1,849**	1,740
Retention benefits for key management personnel	**669**	434
Total	**$ 3,703**	$ 3,206

10. Operating leases

The non-cancellable annual operating lease payments for the Corporation are summarized as follows:

($ thousands)	**2011**	**2010**
Less than 1 year	**-**	22
Between 1 and 5 years	**118**	73
More than 5 years	**188**	188

Under the operating lease for its premises the Corporation is required to pay property taxes and common area maintenance costs which are currently approximately $322,000 per annum.

11. Income taxes

Income tax expense reported in the statement of income is as follows:

Recognition of effective tax rate

($ thousands)	**2011**	2010
Profit (loss) before income tax	**$ 18,651**	$ 13,060
Income tax using the combined statutory rate for 2011 of 28.25%	**5,269**	4,048
Income not included for tax purposes	**(7,444)**	(6,185)
Current year losses for which no deferred tax asset was recognized	**1,925**	1,649
Other, net	**250**	488
Provision (recovery)	**$ -**	$ -

Deferred tax assets and liabilities

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

($ thousands)	**2011**	2010
Deductible temporary differences	**$ 3,030**	$ 2,895
Tax benefit of loss carry-forwards	**7,026**	5,585
	$10,056	$ 8,480

The tax losses expire starting in 2014. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

12. Related parties

Transactions with key management personnel

Directors and key management personnel compensation

During the year, the directors received an aggregate remuneration of $154,000 (2010 - $137,000). Total directors' expenses were $ 83,000 (2010 - $61,000). The remuneration for the Chair is a minimum of $2,000 per month, which includes a per diem rate of $500. The per diem rate for all other board members is $400 (2010 - $400) plus an annual retainer of $3,500.

Under the Public Sector Salary Disclosure Act 1996, DICO publishes the name, title, salary and taxable benefits for all employees who earned $100,000 or more during 2011. The information is available on the Ministry of Finance website at **http://www.fin.gov.on.ca/en/publications/salarydisclosure/2012/.**

In addition to their salaries, the Corporation provides a human resources retention plan for key management personnel for the purpose of ensuring effective transition and succession planning. The terms of the plans vary with individuals and the acceptance is voluntary. Other benefits include DICO's contributions to the pension plan and non-pension future employee benefits which all employees of DICO are entitled to participate in when they meet the qualification criteria.

Key management personnel compensation included:

($ thousands)	**2011**	2010
Short-term benefits	**$ 61**	$ 61
Post-employment benefits	**155**	118
Other long-term benefits	**236**	225
Total	**$ 452**	$ 404

13. Contingency

When acting in the capacity of administrator or liquidator of a credit union, the Corporation manages various legal actions in the normal course of business. One of these legal actions led to a claim against the Corporation which remained outstanding at the end of 2011. This claim was dismissed by the Ontario Superior Court of Justice based upon DICO's Statutory Immunity; however, the ruling was subsequently appealed. The appeal is expected to be heard in 2012. No provision has been made for this matter in these financial statements.

14. Risks arising from financial instruments

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investment securities. The Corporation minimizes its credit risk by investing in high quality financial instruments and by limiting the amount invested in any one counterparty. All investments in the DIRF are limited to those permitted by legislation, by the terms of the line of credit agreement with the OFA and to any limits made by the Corporation's investment policy. The Corporation establishes an allowance for doubtful accounts that represents its estimate of deposit insurance losses in insured institutions. The main components of this allowance are specific provisions that relate to individually significant exposures, and a general provision established in respect of losses that have been incurred but not yet identified. The general provision is determined based on historical data of payment statistics for similar financial assets.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations to depositors as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically, the Corporation ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations, if any; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Corporation maintains a line of credit approved by the Minister of Finance of $250 million that can be drawn down to provide liquidity to DICO as deposit insurer of insured institutions in the Province of Ontario. The terms of the line of credit require DICO to liquidate its DIRF investments before it can borrow above $20 million. The facility is effective from January 1, 2009 to December 31, 2013. Interest would be payable at an annual rate equal to the province's cost of funds for borrowings for a three-month term, plus an additional 0.40 percent, as determined by the OFA at the commencement of each three month period.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect income or the value of the holdings of financial instruments. The Corporation does not have any dealings with foreign currency. DICO's primary investment objective is to preserve capital and provide necessary liquidity to pay claims and ongoing operating expenses.

(d) Fair value sensitivity analysis for fixed rate instruments

The Corporation accounts for its fixed rate financial assets as available-for-sale. Therefore, a change in interest rates at the reporting date would not affect net income with respect to these fixed rate instruments. A change of 100 basis points in interest rates would have increased or decreased equity by $793,000 (2010: $574,000).

(e) Capital management

The Board's policy is to enhance the financial soundness of the credit union and caisse populaire sector. As of December 31, 2011, the Corporation has a DIRF of $113 million, which represents 51 basis points of the sector's insured deposits. DICO's minimum target range for the DIRF is between 56 and 68 basis points of total insured deposits. The Corporation is committed to building the fund to the target range by recovering on past insurance losses and, if necessary, making recommendations to the government to increase deposit insurance premiums.

15. Fair value disclosure

The fair value of financial assets and liabilities, which include cash and cash equivalents, investments, premiums receivable, payables and accruals, and employee benefits, approximate their carrying amounts. The fair value of accrual for deposit insurance losses has not been determined because it is not practicable to determine fair value with sufficient reliability.

16. Explanation of transition to IFRS

As stated in note 2(a), these are the Corporation's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (date of transition).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian Generally Accepted Accounting Principles ("CGAAP"). An explanation of how the transition from previous CGAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables:

Explanation of transition to IFRS

Reconciliation of Equity

		January 1, 2010		January 1, 2010	December 31, 2010		December 31, 2010
($ thousands)	Note	Previous CGAAP -Consolidated	Effect of transition to IFRS	IFRS	Previous CGAAP -Consolidated	Effect of transition to IFRS	IFRS
ASSETS **Current assets**							
Cash and equivalents	*a*	$ 8,986	$ (7,673)	$ 1,313	$ 13,175	$ (11,308)	$ 1,867
Investments		85,885	-	85,885	68,390	-	68,390
Loans (net)	*a*	18,231	(18,231)	-	25,612	(25,612)	-
Premiums receivable		3,714	-	3,714	3,940	-	3,940
Prepaid expenses and	*a*	203	(74)		1,679	(1,414)	
other receivables	*c*		30	159		53	318
Total current assets		117,019	(25,948)	91,071	112,796	(38,281)	74,515
Non-current assets							
Land and buildings	*a*	-	-	-	1,249	(1,249)	-
Deposit insurance advances recoverable	*a*	517	14,744	15,261	4,082	28,550	32,632
Property, plant and equipment (net)	*a*	1,617	(379)	1,238	1,954	(538)	1,416
Total non-current assets		2,134	14,365	16,499	7,285	26,763	34,048
Total assets		$ 119,153	$ (11,583)	$ 107,570	$ 120,081	$ (11,518)	$ 108,563
LIABILITIES **Current liabilities**							
Payables and accruals	*a, d*	$ 4,127	$ 165	$ 693	$ 5,063	$ (573)	$ 646
	d , e		(3,599)			181	
	e					(4,025)	
Member shares and deposits of institutions in liquidation	*a*	4,176	(4,176)	-	11,436	(11,436)	-
Deferred premium income		3,776	-	3,776	3,893	-	3,893
Total current liabilities		12,079	(7,610)	4,469	20,392	(15,853)	4,539
Non-current liabilities							
Payables and accruals	*e*	-	948	948		941	941
Employee benefits	*b*	-	122	2,773		122	3,206
	e		2,651			3,084	
Accrual for deposit insurance claims	*a*	28,773	(10,902)	17,871	13,771	(8,496)	5,275
Total non-current liabilities		28,773	(7,181)	21,592	13,771	(4,349)	9,422
Total Liabilities		$ 40,852	$ (14,791)	$ 26,061	$ 34,163	$ (20,202)	$ 13,961
EQUITY							
Accumulated other comprehensive income		$ 16	$ -	$ 16	$ 49	$ -	$ 49
Deposit Insurance Reserve Fund	*a, b, c, d*	78,285	3,208	81,493	85,869	8,684	94,553
Total Equity		$ 78,301	$ 3,208	$ 81,509	$ 85,918	$ 8,684	$ 94,602
Total Liabilities and Equity		$ 119,153	$ (11,583)	$ 107,570	$ 120,081	$ (11,518)	$ 108,563

Reconciliation of Statement of Operations and Changes in the Deposit Insurance Reserve Fund
For the year ended December 31, 2010

($ thousands)	Note	Previous CGAAP -Consolidated	Effect of transition to IFRS	IFRS
Income				
Premium income		$ 21,196	$ -	**$ 21,196**
Other income	f	(2,852)	(2,336)	**516**
		24,048	(2,336)	**21,712**
Expenses				
Salaries and benefits	f	5,111	(8)	**5,103**
Operating expenses		2,434	-	**2,434**
Recovery of operating expenses	f	(126)	(265)	**(391)**
		7,419	(273)	**7,146**
Operating and interest expenses-institutions in liquidation	f	11,004	(11,004)	-
		18,423	(11,277)	**7,146**
Excess of income over operating expenses		5,625	8,941	**14,566**
Net increase (decrease) Provision for losses	f	(1,959)	3,465	**1,506**
Excess of income over total expenses	f	7,584	5,476	**13,060**
Deposit Insurance Reserve Fund, beginning of year		78,285	3,208	**81,493**
Deposit Insurance Reserve Fund, end of year		$ 85,869	$ 8,684	**$ 94,553**

Reconciliation of Statement of Comprehensive Income
For the year ended December 31, 2010

($ thousands)	Note	Previous CGAAP -Consolidated	Effect of transition to IFRS	IFRS
Excess of income over expenses	f	$ 7,584	$ 5,476	**$ 13,060**
Other comprehensive income:				
Unrealized gains on available-for-sale investment		33	-	**33**
Other comprehensive income		33	-	**33**
Comprehensive income		**$ 7,617**	**$ 5,476**	**$ 13,093**
Statement of Accumulated other comprehensive Income For the year ended December 31, 2010 *($ thousands)*				
Accumulated other comprehensive income, beginning of year		$ 16	$ -	**$ 16**
Sale of available-for-sale investment from opening balance of accumulated other comprehensive income		(16)	-	**(16)**
Unrealized gains on available-for-sale investment		49	-	**49**
Net change during the year		33	-	**33**
Accumulated other comprehensive income, end of year		**$ 49**	**$ -**	**$ 49**

Explanation of transition to IFRS

Notes to the reconciliations

a) De-consolidation of Variable Interest Entities ("VIEs")

DICO previously consolidated the financial statements of institutions in liquidation which are qualified as VIEs under CGAAP. Under IFRS, it was determined that DICO does not accrue ownership benefits acting as supervisor, administrator and liquidator of institutions in financial difficulties. Therefore, institutions in liquidations are no longer consolidated.

The impact arising from the change is summarized as follows:

Statement of Financial Position	January 1, 2010	December 31, 2010
Decrease in cash	$ (7,673,000)	$(11,308,000)
Decrease in loans	(18,231,000)	(25,612,000)
Decrease in interest and other receivables	(74,000)	(1,414,000)
Decrease in land and buildings	-	(1,249,000)
Increase in deposit insurance advances	14,744,000	28,550,000
Decrease in capital assets	(379,000)	(538,000)
Decrease in payables and accruals	-	573,000
Decrease in member shares and deposits	4,176,000	11,436,000
Decrease in accrual for deposit insurance losses	10,902,000	8,496,000
Increase in DIRF	**$ 3,465,000**	**$ 8,934,000**

b) Employee benefits - Post-employment future non-pension benefit plan (for medical, dental and life insurance benefits) (IAS 19.44)

Under IFRS, DICO's accounting policy is to recognize the actuarial gains and losses using the 10% corridor method (same as current CGAAP) where gains and losses that fall outside of the 10% corridor were amortized over the average expected remaining service life of the active group (i.e., 11 years). The benefit expense is recognized systematically over time in profit or loss. At the date of transition (January 1, 2010), all previously unrecognized cumulative actuarial gains and losses had to be recognized in retained earnings (DIRF).

As calculated by Mercer (Canada), as at December 31, 2009, there was an unrecognized actuarial loss of $122,000. As a result, a net obligation of $122,000 would need to be recorded as a transitional adjustment to DIRF at January 1, 2010 to adjust the accrued future benefit liability of $1,523,000 to a total of $1,645,000 under IFRS.

The 2010 benefit expense of $137,000 is the same under the old Canadian Institute of Chartered Accountants' Handbook Section 3461 basis and under the new IFRS basis. Therefore, no adjustment is necessary for the year 2010.

Impact summary:

Statement of Financial Position	January 1, 2010	December 31, 2010
Increase in accrued future non-pension benefits	$(122,000)	-
Increase in DIRF	**$(122,000)**	**-**

c) Non-vested pension benefits under the defined contribution plan

DICO's defined contribution pension plan provides pension benefits to all regular and non-contractual employees. Pension cost is determined by a fixed percentage (7%) of the employees' income plus the matching of the employees' contributions to a maximum of 4%.

DICO's current practice complies with the IFRS. However, for employees who have not met the vesting period of 2 years*, a prepaid asset will need to be recognized, until the vesting period is reached, or eliminated as a result of Ontario's pension reforms, whichever is earlier.

Pension contributions for unvested employees amounted to $30,000 as at December 31, 2009 and increased to $53,000 at the end of December 2010.

Impact summary:

Statement of Financial Position	January 1, 2010	December 31, 2010
Increase in current assets-Prepaid exp- non-vested pension	$30,000	$23,000
Increase in DIRF	**$30,000**	**$23,000**

*The Pension Benefits Amendment Act (Bill 236) provides immediate vesting and locking-in for plan members. It has received Royal Assent on May 18, 2010 but the effective date for the implementation is unknown at this time.

d) Short-term benefits (IAS 19.10)

A liability is recognized for the cost of carryover vacation entitlements (limited to corporate policy allowed) at the end of each reporting period. CGAAP does not provide guidance on measuring liability for compensated absences and DICO did not accrue for such liability in the past.

Accrual of vested accumulated unused vacation entitlements as of December 31, 2009 and December 31, 2010 were $165,000 and $181,000, respectively.

Impact summary:

Statement of Financial Position	January 1, 2010	December 31, 2010
Increase in accrued vacation entitlements	$(165,000)	$(16,000)
Decrease in DIRF	**$(165,000)**	**$(16,000)**

e) Reclassification under IFRS

Certain comparative figures have been reclassified in order to conform with the IFRS's classification in the statement of financial position, i.e., to present current and non-current assets, and current and non-current liabilities.

Statement of Financial Position	January 1, 2010	December 31, 2010
Current liabilities – payables and accruals	$(3,599,000)	$(4,025,000)
Non-current liabilities-payables and accruals	948,000	941,000
Non-current liabilities-Employee benefits	2,651,000	3,084,000
Decrease in DIRF	**$ -**	**$ -**

f) Statement of Operations and Changes in the Deposit Insurance Reserve Fund

The impacts to the Statement of Operations for the year ended December 31, 2010 are as follows:

	VIEs de-consolidation	Others	Total
Other income	$ (2,336,000)	$ -	**$ (2,336,000)**
Less:			
Salaries and benefits (Non-vested pension contributions and other short-term benefits)	-	(8,000)	**(8,000)**
Recovery of operation expenses (Liquidation and loan collection fees)	(265,000)	-	**(265,000)**
Operating and interest expense - institutions in liquidation	(11,004,000)	-	**(11,004,000)**
Provision for losses	3,465,000		**3,465,000**
Sub-total	(7,804,000)	(8,000)	**(7,812,000)**
Net change	$ 5,468,000	$ (8,000)	**$ 5,476,000**

Ministry of Infrastructure
General Real Estate Portfolio
Financial Statements

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Independent Auditors' Report

To the Minister of Infrastructure

We have audited the accompanying financial statements of the Ministry of Infrastructure General Real Estate Portfolio, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as implemented by the Province of Ontario.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as implemented by the Province of Ontario and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ministry of Infrastructure General Real Estate Portfolio as at March 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as implemented by the Province of Ontario.

Basis of Accounting
Without modifying our opinion, we draw attention to the Summary of Significant Accounting Policies in the notes to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Ministry of Infrastructure General Real Estate Portfolio to comply with the accounting principles for governments recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants as implemented by the Province of Ontario. As a result, the financial statements may not be suitable for another purpose.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
June 15, 2012

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Ministry of Infrastructure
General Real Estate Portfolio
Statement of Financial Position
As at March 31

($ thousands)

	2012	2011 Restated (Notes 9 & 12)
Financial Assets		
Cash and cash equivalents (Note 2)	**$ 181,117**	$ 119,412
Trade accounts receivable	**109,708**	146,038
AFP accounts receivable (Note 8)	**1,258,403**	519,586
Receivables under capital leases (Note 3)	**402,111**	408,460
Due from related parties (Note 4)	**49,787**	44,270
Projects receivables	**15,440**	10,989
Assets held for sale (Note 5)	**3,403**	15,434
	2,019,969	1,264,189
Liabilities		
Accounts payable and other liabilities	**162,311**	142,382
AFP liabilities (Note 8)	**1,229,054**	506,431
Customers' deposits	**394**	397
Due to related parties (Note 6)	**29,350**	13,155
Capital leases obligations (Note 3)	**402,111**	408,460
	1,823,220	1,070,825
Net financial assets	**196,749**	193,364
Non-financial assets		
Tangible capital assets (Notes 7 & 9)	**5,288,052**	4,363,145
Prepaids and deposits	**42,580**	32,401
	5,330,632	4,395,546
Accumulated surplus	**$ 5,527,381**	$ 4,588,910

See accompanying notes

Ministry of Infrastructure
General Real Estate Portfolio
Statement of Operations and Accumulated Surplus

($ thousands)

For the years ended March 31

	Budget 2012 (Unaudited)	**Actual 2012**	Actual 2011 Restated (Notes 9 & 12)
Revenue			
Rent	$ 652,168	**$ 690,041**	$ 675,914
Cost recoveries	190,657	**147,084**	141,195
Other income	1,100	**2,010**	847
	843,925	**839,135**	817,956
Operating Expenses			
Facilities	653,414	**673,463**	636,595
Recoverable costs	190,657	**144,904**	145,670
Property disposition costs	12,634	**5,725**	4,489
General and administration	2,867	**2,062**	3,683
Interest on capital leases	19,922	**20,884**	21,696
	879,494	**847,038**	812,133
	(35,569)	**(7,903)**	5,823
Gain on sale of tangible capital assets	85,684	**823**	53,121
Gain on sale of assets held for sale	-	**84,017**	-
Operating surplus	50,115	**76,937**	58,944
Amortization of tangible capital assets	(140,926)	**(143,425)**	(121,466)
Write down of tangible capital assets	(38,524)	**(4,315)**	(202)
Deficit	$ (129,335)	**$ (70,803)**	$ (62,724)
Accumulated surplus, beginning of year, as previously stated		**4,517,967**	3,959,688
Prior period adjustment (Note 9)		**70,943**	41,561
Accumulated surplus, beginning of year, restated		**4,588,910**	4,001,249
Contributions from ministries		**1,100,338**	718,328
Contributions from other government organizations		**49,385**	29,382
Distributions to the Province of Ontario		**(140,449)**	(97,325)
Net contributions		**1,009,274**	650,385
Accumulated surplus, end of year		**$ 5,527,381**	$ 4,588,910

See accompanying notes

Ministry of Infrastructure
General Real Estate Portfolio
Statement of Changes in Net Financial Assets
For the years ended March 31

($ thousands)

	2012	2011 Restated (Notes 9 & 12)
Deficit for the year	**$ (70,803)**	$ (62,724)
Acquisition of tangible capital assets	**(1,097,221)**	(652,461)
Amortization of tangible capital assets	**143,425**	121,466
Gain on sale of tangible capital assets	**(823)**	(53,121)
Proceeds on sale of tangible capital assets	**25,397**	55,880
Write down of tangible capital assets	**4,315**	202
	(995,710)	(590,758)
Use of prepaids and deposits	**(10,179)**	(7,506)
Contributions from ministries	**1,100,338**	718,328
Contributions from other government organizations	**49,385**	29,382
Distributions to the Province of Ontario	**(140,449)**	(97,325)
Increase in net financial assets	**3,385**	52,121
Net financial assets, beginning of year	**193,364**	141,243
Net financial assets, end of year	**$ 196,749**	$ 193,364

See accompanying notes

Ministry of Infrastructure
General Real Estate Portfolio
Statement of Cash Flows
For the years ended March 31

($ thousands)

	2012	2011 Restated (Notes 9 & 12)
Cash Provided by (used in)		
Operating transactions		
Deficit for the year	**$ (70,803)**	$ (62,724)
Changes in non cash items		
Amortization of tangible capital assets	**143,425**	121,466
Gain on sale of assets held for sale	**(84,017)**	-
Gain on sale of tangible capital assets	**(823)**	(53,121)
Write down of tangible capital assets	**4,315**	202
Changes in non cash working capital balances		
Decrease/(increase) in trade accounts receivable	**36,330**	(89,266)
Increase in AFP accounts receivable	**(738,817)**	(418,652)
Decrease/(increase) in project receivable	**(4,451)**	12,661
Increase in accounts payable and other liabilities	**19,929**	2,029
Increase in AFP liabilities	**722,623**	414,097
Decrease in customer deposits	**(3)**	(513)
Increase in prepaids and deposits	**(10,179)**	(7,506)
	17,529	(81,327)
Capital transactions		
Proceeds from sale of tangible capital assets	**25,397**	55,880
Acquisition of tangible capital assets	**(1,097,221)**	(652,461)
	(1,071,824)	(596,581)
Investing transactions		
Proceeds from disposition of assets held for sale	**95,878**	-
Decrease/(increase) in assets held for sale	**170**	(15,434)
Increase in due from related parties	**(5,517)**	(15,268)
	90,531	(30,702)
Financing transactions		
Contributions from ministries	**1,100,338**	718,328
Contributions from other government organizations	**49,385**	29,382
Distributions to the Province of Ontario	**(140,449)**	(97,325)
Increase in due to related parties	**16,195**	4,554
	1,025,469	654,939
Net change in cash and cash equivalents	**61,705**	(53,671)
Cash and cash equivalents, beginning of the year	**119,412**	173,083
Cash and cash equivalents, end of year	**$ 181,117**	$ 119,412

See accompanying notes

Ministry of Infrastructure
General Real Estate Portfolio
Notes to the Financial Statements
March 31, 2012 and 2011

($ thousands)

1. Summary of Significant Accounting Policies

Nature of Organization	The Ministry of Infrastructure General Real Estate Portfolio ("GREP") consists of certain realty assets owned and/or leased by Her Majesty the Queen, in Right of Ontario (Province of Ontario/Province), as represented by the Minister of Infrastructure (MOI) and managed by Ontario Infrastructure and Lands Corporation (IO). Certain real estate assets and liabilities in the MOI's portfolio are not reflected in these statements. Revenues consist of rental of space to government ministries; capital lease cost recoveries from Ministries; project cost recoveries from Ministries; property dispositions; and operating and capital funding allocations from the Ministry of Infrastructure. Expenditures relate to the costs of operating, maintaining and repairing GREP's assets.
Basis of Accounting	The financial statements are prepared in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) as implemented by the Province of Ontario and, where applicable, the recommendations of the Accounting Standards Board (AcSB) of the CICA.
Cash Equivalents	Cash equivalents are comprised of treasury bills with maturity dates of less than 90 days.
Tangible Capital Assets	Tangible capital assets are recorded at cost less accumulated amortization. Cost includes the costs directly related to the acquisition, design, construction, development, improvement, or betterment of tangible capital assets. Cost includes amounts directly attributable to construction or development including materials and labour. Interest incurred during construction period is capitalized. Interest costs are not capitalized when there are no development or construction activities going on. If construction of the tangible capital asset is terminated or deferred indefinitely before completion, the costs capitalized to-date are expensed, unless there is an alternative use for the tangible capital asset. All tangible capital assets, except assets under construction, Alternative Financing and Procurement (AFP) project assets, land and land improvements with an indefinite life, are amortized on a straight line basis over their estimated useful lives. The useful lives of GREP's tangible capital assets have been estimated as:

Buildings	20 to 40 years
Yardworks, including airport runways, parking lots and a dam	12 to 40 years
Leasehold Improvements & Accommodation Alterations	Lease term or useful life, whichever is shorter

Ministry of Infrastructure
General Real Estate Portfolio
Notes to the Financial Statements
March 31, 2012 and 2011

($ thousands)

Tangible Capital Assets (Continued)	The carrying value of tangible capital assets are written down to their residual value, if they can no longer contribute to the Province's ability to provide service at the previously anticipated level and the impairment is permanent in nature.
Interest Capitalization	Cost of tangible capital assets constructed or developed by the Province of Ontario (Province) includes interest costs incurred during the development or construction period. All interest incurred during the construction period is capitalized. There is no capitalization threshold. Capitalization of interest ceases once the asset is ready for use, even though the asset may be put to use at a later date. The interest rate to be used in calculating the interest cost incurred during construction in any given year is the Weighted Average Cost of Capital (WACC). The Ontario Financial Authority (OFA) provides the appropriate WACC. For fiscal year 2011-12, the WACC is 4.66% (2010-11 – 4.75%).
Capital Leases	Capital leases entered into by the Province are capitalized at the beginning of the lease term. Capital leases are valued at discounted present value of the minimum lease payments during the lease term excluding executory costs, together with any profit thereon. If this amount exceeds the fair value of the leased property at the inception of the lease, the amount recorded as the asset and obligation is the fair value. No new capital leases were recorded in the year ended March 31, 2012.
Revenue Recognition	Rental revenue is recorded based on terms in lease agreements. Projects costs recoveries are recognized as the services are provided. Costs recovered from the Ministry of Infrastructure are recognized when billed. Interest income is recognized on a time proportion basis.
Operating Leases - Rent Expense	Rental expense is recorded based on terms in the lease agreements.

Ministry of Infrastructure
General Real Estate Portfolio
Notes to the Financial Statements
March 31, 2012 and 2011

($ thousands)

Contributions from Ministries	Ministry contributions represent funds received from (1) the Ministry of Infrastructure's capital and operating allocations, (2) the value of assets, asset improvements and betterments funded by other ministries that are capitalized to the tangible capital assets of GREP, and (3) the value of Alternative Financing and Procurement (AFP) Projects funded by sponsoring ministries, which is the estimated value of construction in progress recorded in the period. These amounts are recorded as an addition to the accumulated surplus.
	Revenue received through federal capital grants is deferred until such time as the related assets are put into service, after which the related revenue is amortized over the estimated service lives of the related assets.
Contributions from Other Government Organizations	Toronto Waterfront Revitalization (TWRC) made improvements to lands located in Toronto's "West Donlands", the site of the T02015 Pan Am Athlete's Village, which are owned by GREP. The improvements were funded by the Province of Ontario, the Federal Government and the City of Toronto. The improvements are capitalized to the cost of the property in GREP. The amounts are recorded as additions to the accumulated surplus.
Distributions to Province of Ontario	Distributions represent the remittance/payment of funds collected by GREP from private sector and non-government sources, to the Consolidated Revenue Fund in accordance with the requirements of the Financial Administration Act.
Financial Instruments	Unless otherwise noted, it is management's opinion that GREP is not exposed to significant interest, currency or credit risks arising from its financial instruments and the carrying amount of its financial instruments approximate their fair value.
Use of Estimates	GREP's accounting policies and standards of financial disclosure are in accordance with the Corporate Management Directives of the Office of the Provincial Controller, Fiscal and Financial Policy Division; the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants; and are substantially in accordance with recommendations of the Canadian Institute of Public and Private Real Estate Companies. These policies require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Ministry of Infrastructure
General Real Estate Portfolio
Notes to the Financial Statements
March 31, 2012 and 2011

($ thousands)

2. Cash and Cash Equivalents

The balance includes treasury bills of $50,061 (March 31, 2011 – $20,097) issued by the Ontario Financing Authority with effective interest rates of 0.94% (March 31, 2011 – 0.96%).

3. Receivables under Capital Leases and Capital Leases Obligation

The Ministry of Infrastructure enters into contractual agreements with third parties to finance, design, build and manage certain assets on behalf of sponsoring ministries. They are classified as capital leases. The terms and conditions are the same for both receivables under capital leases from the sponsoring ministries and the capital leases obligation to the construction consortium. There are no new capital leases recorded in fiscal year 2012.

	March 31 2012	March 31 2011
Due March 2040, repayable in blended monthly installments of $1,026, interest at 5.19%, secured by the tangible capital assets under the AFP project	**$ 181,328**	$ 184,137
Due November 2039, repayable in blended monthly installments of $1,244, interest at 5.11%, secured by the tangible capital assets under the AFP project	**220,783**	224,323
	$ 402,111	$ 408,460

Future minimum lease payments under capital leases are as follows:

2013	$ 27,233
2014	27,233
2015	27,233
2016	27,233
2017	27,233
Thereafter	620,960
Total minimum lease payments	757,125
Less imputed interest	355,014
	$ 402,111

4. Due from Related Parties

The balance consists of $49,787 (March 31, 2011 - $44,270) due from the Ministry of Infrastructure. The amounts are due on demand, unsecured and non-interest bearing.

5. Assets Held For Sale

	March 31 2012	March 31 2011
Land	$ 2,446	$ 13,520
Buildings	4,672	8,065
	7,118	21,585
Less amortization	3,715	6,151
Net book value	$ 3,403	$ 15,434

Assets held for sale are recorded at the lower of net book value and net realizable value. Cost includes all costs of acquisition, capitalized improvements on property net of amortization.

Assets held for sale have been declared surplus to the needs of the Province and have been approved for sale by an Order-in-Council. It is reasonably anticipated that assets held for sale will be sold outside the reporting entity within one year of the balance sheet date.

6. Due to Related Parties

The balance consists of $29,350 (March 31, 2011 - $13,155) due to IO. The amounts are due on demand, unsecured and non-interest bearing.

7. Tangible Capital Assets

		March 31 2012		March 31 2011
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 556,366	-	$ 535,896	$ -
Yardworks	35,723	6,875	32,843	5,504
Buildings	3,707,732	1,473,139	3,604,731	1,386,234
Assets under construction	639,362	-	536,203	-
AFP: (Note 7)				
Buildings	82,592	1,450	-	-
Assets under Construction	1,279,347	-	564,238	-
Assets under Capital Lease	501,807	33,413	501,806	20,834
	6,802,929	1,514,877	5,775,717	1,412,572
Net book value		$ 5,288,052		$ 4,363,145

Land includes land acquired for transportation infrastructure, parks, buildings and other program use, and land improvements that have an indefinite life and are not being amortized. Land excludes Crown lands acquired by right.

Buildings include administrative and service structures. Leased premises are excluded.

Assets under construction include new buildings under construction and alterations to existing buildings.

AFP Project Assets represent the value of AFP projects completed and/or construction in progress during the year based on estimates provided by the Ministry of Infrastructure as sourced from Infrastructure Ontario.

8. AFP Assets under Construction, Receivables and Liabilities

Construction costs are recorded based on percentage of completion and are independently certified. Startup costs are capitalized at the commencement of construction. Soft costs, including fees and financing costs, are recorded consistent with the percentage completion recorded for construction. Construction costs incurred during the year are recorded as contributions from the sponsoring ministries and additions to the accumulated surplus.

AFP Receivables represent the amount owed from the sponsoring ministries on account of the construction costs, transaction, ancillary and IO costs for the projects under construction at the financial statement date.

AFP Liabilities represents the amounts owed to the construction consortium for the value of AFP projects under construction at the financial statement date.

9. Prior Period Adjustment

During the year, GREP determined it should have recognized the value of improvements made by TWRC to the Toronto "West Donlands" property as tangible capital assets in previously issued financial statements.

As a result, GREP has restated its previously issued financial statements for the year ended March 31, 2011 and has recorded the following adjustments to its prior year reported statements:

Statement of Financial Position	2011 Previously Issued	Prior Period Adjustment	2011 Restated
Tangible Capital Assets	$ 4,292,202	$ 70,943	$ 4,363,145
Accumulated Surplus			
Prior period adjustment		41,561	
Contributions from other government organizations		29,382	
	$ 4,517,967	$ 70,943	$ 4,588,910

10. Commitments

GREP has entered into contractual obligations for leases and construction projects and does so on a continuing basis. Contractual obligations as at March 31, 2012 are as follows:

	Building Leases	Construction Contracts
2013	$ 269,008	$ 111,714
2014	248,230	30,258
2015	210,834	5,760
2016	156,896	1,979
2017	108,152	-
2018 and thereafter	345,428	-
	$ 1,338,548	**$ 149,711**

11. Segmented information

The reporting structure of the General Real Estate Portfolio reflects how the business is managed and how operations are classified for planning and measuring performance. The table below is a summary of financial information by segment:

	Year ended March 31 2012			Year ended March 31 2011		
($,000)	**Real Estate Management**	**Ontario Lands**	**Total**	Real Estate Management	Ontario Lands	Total
Revenue						
Rent	**$ 690,041**	**$ -**	**$ 690,041**	$ 675,914	$ -	$ 675,914
Cost recoveries	**132,845**	**14,239**	**147,084**	126,817	14,378	141,195
Other income	**2,010**	**-**	**2,010**	847	-	847
	824,896	**14,239**	**839,135**	803,578	14,378	817,956
Operating Expenses						
Facilities	**673,463**	**-**	**673,463**	636,595	-	636,595
Recoverable costs	**130,665**	**14,239**	**144,904**	131,292	14,378	145,670
Property disposition costs	**-**	**5,725**	**5,725**	-	4,489	4,489
General and administration	**2,062**	**-**	**2,062**	3,683	-	3,683
Interest on capital leases	**20,884**	**-**	**20,884**	21,696	-	21,696
	827,074	**19,964**	**847,038**	793,266	18,867	812,133
Gain on sale of assets	**-**	**84,840**	**84,840**	-	53,121	53,121
Operating surplus/(deficit)	**$ (2,178)**	**$ 79,115**	**$ 76,937**	$ 10,312	$ 48,632	$ 58,944
Amortization	**-**	**-**	**(143,425)**	-	-	(121,466)
Write down of tangible capital	**-**	**-**	**(4,315)**	-	-	(202)
Deficit	**$ -**	**$ -**	**$ (70,803)**	$ -	$ -	$ (62,724)

12. Restatement of AFP Projects Transfer

In fiscal 2012, GREP changed the accounting policy related to the value of AFP projects transferred in the year to GREP by ministries. AFP projects transfers previously recorded as revenues are now recorded as contributions from ministries in Accumulated Surplus, consistent with the accounting treatment of other assets, asset improvements and betterments transferred to GREP by ministries.

The financial statements for the year ended March 31, 2011 have been restated to reflect this change in policy.

13. Contingent Liability

Prior to the amalgamation of Stadium Corporation of Ontario Limited (STADCO) with IO and Ontario Realty Corporation on June 6, 2011, all assets, liabilities and operations of STADCO were transferred to GREP, including ground leases dated June 3, 1989 with Canada Lands Company (CLC) for the SkyDome Lands and the sublease to Rogers Stadium Limited Partnership (sub tenant). Under the terms of the ground lease, GREP is responsible for base rent, realty taxes, utilities and certain operating costs, which are assumed by the sub tenant under the terms of the sub lease. In the event of a default by the sub tenant, the potential financial impact to GREP is estimated to be the base rent in the range of $300,000 to $400,000 annually plus realty taxes, utilities and certain operating costs.

14. Prior Year Comparative Figures

Certain prior year comparative figures have been reclassified to conform to the current year's presentation.

**Financial Services
Commission
of Ontario**

**Commission des
services financiers
de l'Ontario**

Ontario

Motor Vehicle Accident Claims Fund

Management Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. Management in accordance with Canadian generally accepted accounting principles has prepared the financial statements and where appropriate included amounts based on Managements best estimates and judgements.

Management agrees with the work of the specialists in evaluating the Unpaid Claims amount and has adequately considered the qualifications of the specialist in determining amounts and disclosures used in the notes to financial statements. Management did not give any, nor cause any, instructions to be given to specialists with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have impacted the independence or objectivity of the specialists.

The Motor Vehicle Accident Claims Fund is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and that the assets were safeguarded. Internal audits are conducted to assess management systems and practices and reports are issued to the CEO and Superintendent of Financial Services of the Financial Services Commission of Ontario (the "FSCO") and the FSCO Audit Committee.

Ernst & Young, Chartered Accountants who are engaged under the direction of the Auditor General, have examined the financial statements. The auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The auditor's report outlines the scope of the auditor's examination and report.

John Avgeris
Senior Manager
Motor Vehicle Accident Claims Fund

Peter McGuinness
Manager, Finance and Accounting
Motor Vehicle Accident Claims Fund

INDEPENDENT AUDITORS' REPORT

To the Audit and Risk Committee of the Financial Services Commission of Ontario and the Auditor General of Ontario

Pursuant to our appointment as auditor of the **Motor Vehicle Accident Claims Fund** ("MVACF"), which audit is under the direction of the Auditor General of Ontario, we have audited the accompanying financial statements ofthe Fund, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and MVACF deficit and cash flows for the yearthen ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Motor Vehicle Accident Claims Fund**as at March 31, 2012and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other matter

The financial statements of the **Motor Vehicle Accident Claims Fund** for the year ended March 31, 2011 were audited by another auditor who expressed an unmodified opinion on those statements on June 24, 2011.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Kitchener, Canada
June 27, 2012

MOTOR VEHICLE ACCIDENT CLAIMS FUND

(Established under the Motor Vehicle Accident Claims Act)

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31

	2012	2011
ASSETS		
Current		
Funds on deposit with the Ministry of Finance	$ 43,967,853	$ 44,483,824
Accounts receivable - driver's licence fees	2,541,775	2,881,951
Accounts receivable - debtors (note 3c)	48,394,734	45,920,998
Less: allowance for doubtful accounts	31,496,957	28,716,139
	16,897,777	17,204,859
Long-term		
Tangible capital assets (note 4)	549,485	571,899
Less: accumulated amortization	532,891	544,230
	16,594	27,669
Unpaid claims recoverable (note 5)	1,499,442	1,850,739
Total assets	$ 64,923,441	$ 66,449,042
LIABILITIES AND MVACF DEFICIT		
Accounts payable and accrued expenses	$ 899,019	$ 1,491,865
Employee future benefits obligation (note 3g)	601,267	577,203
Deferred revenue	69,646,954	68,854,672
Unpaid claims and adjustment expenses (note 5)	138,709,542	157,839,053
Total liabilities	209,855,882	228,762,793
MVACF deficit (note 2)	(144,932,441)	(162,313,751)
Total liabilities and MVACF deficit	$ 64,923,441	$ 66,449,042

See accompanying notes.

APPROVED:

Philip Howell

Philip Howell
Chief Executive Officer and
Superintendent of Financial Services
Financial Services Commission of Ontario

MOTOR VEHICLE ACCIDENT CLAIMS FUND

(Established under the Motor Vehicle Accident Claims Act)

STATEMENT OF OPERATIONS AND MVACF DEFICIT
FOR THE YEAR ENDED MARCH 31

	2012	2011
REVENUE		
Fees on issue or renewal of driver's licences	$ **28,611,773**	$ 28,727,445
Change in deferred revenue	**(791,382)**	(1,317,881)
Fees earned	**27,820,391**	27,409,564
Prior year recoveries	**2,366,379**	1,519,655
Other revenue	**2,188**	2,111
Total revenue	**30,188,958**	28,931,330
EXPENSES		
Change in net unpaid claims and adjustment expenses	**(18,778,214)**	(11,683,167)
Accident benefit claims payments	**18,797,230**	14,846,673
Administrative expenses		
Salaries and wages	**1,720,952**	1,702,340
Employees' benefits	**264,767**	278,193
Transportation and communication	**25,905**	26,127
Claims (solicitors' fees, etc.)	**1,760,484**	2,044,081
Accident benefit claims expense	**1,687,485**	1,625,775
Other services	**1,345,880**	1,468,359
Bad debts expense	**5,958,150**	4,215,697
Supplies and equipment	**13,172**	25,315
Amortization expense	**11,837**	114,500
Total expenses	**12,807,648**	14,663,893
Excess of revenue over expenses	**17,381,310**	14,267,437
MVACF deficit, beginning of year	**(162,313,751)**	(176,581,188)
MVACF deficit, end of year	$ **(144,932,441)**	$ (162,313,751)

See accompanying notes.

MOTOR VEHICLE ACCIDENT CLAIMS FUND

(Established under the Motor Vehicle Accident Claims Act)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31

	2012	2011
OPERATING ACTIVITES		
Cash inflows		
Fees on issue or renewal of driver's licences	$ 28,951,958	$ 29,829,842
Repayment by debtors	1,545,393	1,540,136
Prior year recoveries	2,366,379	1,519,655
Other revenue	2,188	2,111
	32,865,918	32,891,744
Cash outflows		
Statutory payments	(26,405,452)	(21,035,046)
Payments to employees	(1,949,413)	(2,000,296)
Administrative expenses	(5,026,262)	(4,673,261)
	(33,381,127)	(27,708,603)
Net cash (outflow) inflow from operating activities	(515,209)	5,183,141
INVESTING ACTIVITIES		
Cash outflows		
Acquisition of computer equipment	(762)	(21,834)
Net cash outflow from investing activities	(762)	(21,834)
Net (decrease) increase in funds on deposit with the Ministry of Finance	(515,971)	5,161,307
Funds on deposit with the Ministry of Finance, beginning of year	44,483,824	39,322,517
Funds on deposit with the Ministry of Finance, end of year	$ 43,967,853	$ 44,483,824

See accompanying notes.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2012

1. STATUTORY AUTHORITY

The Motor Vehicle Accident Claims Fund (MVACF) operates under the authority of the *Motor Vehicle Accident Claims Act* (the *Act*), R.S.O. 1990, Chapter M.41 as amended.

2. MVACF OPERATIONS

MVACF is a program that was created on July 1, 1947 as the Unsatisfied Judgment Fund. Initially, MVACF was required to respond to victims of uninsured motorists and hit-and-run drivers who could not recover damages awarded by the courts from an automobile insurance company. MVACF legislation was amended in the early 1960s, in 1979 with the *Compulsory Automobile Insurance Act,* and in 1990 by the *Insurance Statute Law Amendment Act* which required MVACF to include in its statutory payments, accident benefits on a no-fault basis for the first time. Currently, MVACF responds to claims in the same fashion and with the same exclusions as automobile insurers in Ontario, and provides for two types of coverage: third-party bodily injury and property damage liability (collectively referred to as TPL), and statutory accident benefits or SABS in accordance with legislated requirements.

The coverage provided by MVACF is analogous to the minimum required coverage under the standard automobile policy (OAP 1) approved by the provincial regulator. Unlike insurance companies, MVACF does not cover claims where the accidents occur outside of Ontario, except in the case of accident benefits where the Ontario insurer is insolvent. In the cases of insurance company insolvencies where MVACF pays claims for accident benefits, MVACF has powers to assess the industry to recover for claims and adjustment expenses and also has claimant rights against the estate of the insolvent insurer.

MVACF operates administratively under the direction of the Financial Services Commission of Ontario (FSCO) and reimburses FSCO for the costs of the services it provides to MVACF.

The Lieutenant Governor in Council, having regard to the condition of MVACF and the amount paid out of MVACF during any period, may direct payment out of the Province's Consolidated Revenue Fund of such an amount as may be considered necessary or advisable to subsidize and fund MVACF's operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the accounting principles recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the recommendations of the Accounting Standards Board of the CICA.

The significant accounting policies used in the preparation of these financial statements are summarized as follows:

a) Driver's Licence Fees and Deferred Revenue

MVACF earns a fee of $15.00 on the issuance or renewal of each driver's five-year licence. The income is earned on a pro-rata basis over the five-year term of the licence and the unearned portion is reflected as deferred revenue.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Accounts Receivable – Fees

Under the *Act*, MVACF receives from the Ministry of Transportation and Serco DES a monthly internal transfer and payment representing the driver's licence fee prescribed by *Ontario Regulation 800.* Accordingly, unremitted licence fees are reported as accounts receivable.

c) Accounts Receivable – Debtors and Restatement

MVACF maintains an accounts receivable portfolio, accumulated over the years as a result of judgments and claims assigned to the Minister of Finance. MVACF will pay damages to injured, not-at-fault victims who have no recourse to liability insurance, on behalf of defendant uninsured motorists. In accordance with the *Act*, these amounts are recoverable from the uninsured motorists. Total repayments received from debtors are reflected in the statement of cash flows.

The allowance for doubtful accounts is determined through a process that considers: the age of defendant/debtor, the defendant/debtor's current monthly installment required under the regulations, the amount paid out of MVACF and the activity on the account since the date of the judgment.

The write-off process depends on established criteria that parallel the criteria established by the Ministry of Finance. These criteria are used to select a block of accounts at the beginning of April that is reviewed by collections staff.

The Ministry of Finance, Internal Audit Section audits the work of the collections staff and provides a certificate of assurance to verify that the established criteria for the write-off have been met. The write-off transaction is authorized by an order-in-council under the authority set out in the *Financial Administration Act*.

In the current year, $0.8 million (2011 - $1.6 million) of the accounts receivable was reinstated through the bad debt expense account.

For fiscal 2011-12, a write-off of $4.0 million (2011 - $5.3 million) was submitted to the Ministry of Finance and approved by the Treasury Board. This write-off is recorded in the current year's financial statements in bad debts expense.

d) Prior Year Recoveries

Prior year recoveries are generated from three main sources: insurance recoveries, reversionary interest (Note 6) and recoveries of court costs. MVACF is required under the Statutory Accident Benefits Schedule (SABS) to satisfy the payment of accident benefits claims within specified periods. The timeframe does not allow for a complete investigation into available insurance coverage and in some instances information is withheld by police because of criminal investigations. Accordingly, when new information is available, MVACF may be required to pursue private insurers for recoveries.

From time to time MVACF may also be involved in the defense of uninsured motorists or the Superintendent of the FSCO, where the legal proceedings are deemed frivolous and MVACF is awarded costs by the courts.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prior year recoveries are recorded in the period they are determined. In the current year $2.4 million (2011 - $1.5 million) recoveries were recorded but related to prior year claims.

e) Unpaid Claims

Unpaid claims represents the estimated amounts required to settle all unpaid claims, including an amount for unreported claims and claim expenses, and is gross of estimated recoveries and subrogation. Claim liabilities are established according to accepted actuarial practice in Canada as applied to public personal injury compensation plans. They do not reflect the time value of money, because MVACF reports no investment income.

The provision for unpaid claims and adjustment expenses consists of estimates that are necessarily subject to uncertainty, and the variability could be material in the near term. The estimates are selected from a range of possible outcomes and are adjusted up or down, as additional information becomes known during the course of loss settlement. The estimates are principally based on historical experience but variability can be caused by changes in judicial interpretations of contracts or significant changes in severity and frequency of claims from historical trends. All changes in estimates are recorded in the current period.

MVACF has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments in the form of structured settlements (note 6).

Settlements occur when there is an irrevocable direction from MVACF to the life insurer to make all payments directly to the claimant. There are no rights under the non-commutable, non-assignable, non-transferable contract that would provide any current or future benefit to MVACF. MVACF remains liable to make payments only in the event that the life insurer fails and only to the extent that Assuris, the life insurance industry's insolvency compensation fund, will not cover payments due. The net risk to MVACF is any credit risk related to the life insurers. This credit risk is deemed nil at March 31, 2012 (2011 – nil) as all insurers are rated A+ or above. There exists the possibility of contingent gains based on the fact that MVACF has purchased insurance on some of the measured lives. Such amounts are described in Note 6 – Contingent Gains.

f) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that MVACF's management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates. The most significant estimates relate to the provision for unpaid claims and adjustment expenses, unpaid claims recoverable and employee future benefits.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2012

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) i) Employee Future Benefits Obligation

Prior to 2007, MVACF did not record the liabilities pertaining to the legislative severance and compensated absences components of its employee future benefits costs because these liabilities had been determined and recognized by the Province of Ontario (the Province) in its consolidated financial statements. While the Province continues to accrue for these costs each year and fund them annually when due, the Auditor General has requested and management has agreed that MVACF also recognize the liability for these costs in these financial statements.

ii) Employee Benefits

MVACF's employees are entitled to benefits that have been negotiated centrally for Ontario Public Service employees. The future liability for benefits earned by MVACF's employees is recognized in the Province's consolidated financial statements.

These benefits are accounted for by MVACF as follows:

Employee Future Benefits Obligation

The costs of any legislated severance and unused vacation entitlements earned by employees are recognized when earned by eligible employees. Legislated severance is non-actuarially estimated based on one week's pay for every year of service for those employees with a minimum of five years of service. In the current year, $601,267 (2011 - $577,203) was recorded with respect to these benefits. An expense of $24,064 (2011 - $35,704) was recorded in the current year as part of employee benefits in the statements of operations and MVACF deficit.

Other Non-Pension Post-Employment Benefits

The cost of other non-pension post-employment benefits is determined and funded on an ongoing basis by the Ontario Ministry of Government Services and accordingly is not included in these financial statements.

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2012

4. TANGIBLE CAPITAL ASSETS

Leasehold improvements, computer equipment, furniture and fixtures, and office equipment are carried at cost less accumulated amortization. MVACF provides for amortization on a straight-line basis over the term of the lease (for leasehold improvements) or over the useful life of the asset. Accordingly, leasehold improvements and furniture and fixtures are amortized over 5 years, while computer equipment and office equipment are amortized over 3 years.

(in dollars)		**2012**				
		Cost		**Accumulated Amortization**		**Net Book Value**
Computer equipment	$	25,663	$	9,831	$	15,832
Office equipment		7,406		6,644		762
Furniture and fixtures		16,416		16,416		-
Leasehold improvements		500,000		500,000		-
	$	549,485	$	532,891	$	16,594

		2011				
		Cost		Accumulated Amortization		Net Book Value
Computer equipment	$	48,839	$	24,453	$	24,386
Office equipment		6,644		6,644		-
Furniture and fixtures		16,416		13,133		3,283
Leasehold improvements		500,000		500,000		-
	$	571,899	$	544,230	$	27,669

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

a) MVACF's unpaid claims and adjustment expenses consist of the following:

(in thousands of dollars)	**2012** Gross	**2012** Recoverable	2011 Gross	2011 Recoverable
ACCIDENT BENEFITS				
Statutory accident benefits	$ 91,290	$ -	$ 104,252	$ -
THIRD-PARTY LIABILITY (TPL)				
Property damage	1,115	23	890	20
Bodily injury	46,304	1,476	52,697	1,831
Total TPL	47,419	1,499	53,587	1,851
Totals	$ 138,709	$ 1,499	$ 157,839	$ 1,851

MOTOR VEHICLE ACCIDENT CLAIMS FUND
(Established under the Motor Vehicle Accident Claims Act)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2012

5. UNPAID CLAIMS AND ADJUSTMENT EXPENSES (continued)

b) The change in gross provision for unpaid claims and adjustment expenses is as follows:

(in thousands of dollars)		2012		2011
Balance, beginning of year	$	**157,839**	$	170,309
Decrease in provision for losses that occurred in prior years		**(17,376)**		(19,533)
Amounts paid during the year on claims of prior years				
Statutory payments		**(25,489)**		(20,165)
Claims expenses		**(6,613)**		(7,093)
Amounts paid during the year on claims of the current year				
Statutory payments		**(505)**		(576)
Claims expenses		**(131)**		(203)
Provision for losses on claims that occurred in the current year		**30,984**		35,100
Balance, end of year	$	**138,709**	$	157,839

6. CONTINGENT GAINS

Some payments out of MVACF are in the form of structured settlements for accident benefit claims. These claims have guarantee periods ranging from 10 to 30 years and during this period the reversionary interest will be payable to Her Majesty the Queen in right of Ontario, as represented by the Minister of Finance, should the claimant die.

Even though the range of probability that the claimant may die during the guarantee period is slight, MVACF nevertheless has calculated the approximate reversionary interest represented by insurance on the claimant lives as at March 31, 2012 for information purposes.

As at March 31, 2012, the amount paid out of MVACF for accident benefit claims in the form of structured settlements was approximately $31.6 million (2011 - $25.7 million) with applicable reversionary interest of approximately $23.7 million (2011- $18.7 million).

7. ROLE OF THE ACTUARY AND AUDITOR

The FSCO retains an independent actuary who acts as MVACF's actuary. The actuary's responsibility is to carry out an annual valuation of MVACF's liabilities, which include provision for unpaid claims and adjustment expenses in accordance with accepted actuarial practice. In performing the valuation, the actuary makes assumptions as to the future rates of claims frequency and severity, inflation, recoveries, and expenses, taking into consideration the circumstances of MVACF. The actuary in his verification of the underlying data used in the valuation also makes use of the work of the external auditor. The actuary's report outlines the scope of his work and opinion.

The external auditors act under the direction of the Auditor General of Ontario pursuant to agreed terms of engagement. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and report thereon to the Audit and Risk Committee of the FSCO. In carrying out their audit, the auditors also consider the work of the actuary and his report on the provision for claims and claim expenses. The auditors' report outlines the scope of their audit and their opinion.

Ontario Pension Board

Actuaries' opinion to the directors of the Ontario Pension Board

Aon Hewitt was retained by the Ontario Pension Board ("OPB") to prepare the following actuarial valuations of the Public Service Pension Plan ("PSPP"):

- An actuarial valuation as at December 31, 2010 on a funding basis, as described in Note 7 of these financial statements, prepared in accordance with the *Public Service Pension Act* and applicable pension legislation.

- An actuarial valuation as at December 31, 2011 for purposes of these financial statements, prepared in accordance with the Canadian Institute of Chartered Accountants Handbook, Section 4600.

The actuarial valuation of the PSPP as at December 31, 2010 on a funding basis was based on membership data provided by OPB as at December 31, 2010.

Using the same data as provided by OPB for the funding valuation of the PSPP, we have prepared a valuation of the liabilities as of December 31, 2010 on the basis of the accounting methodology required by the Canadian Institute of Chartered Accountants Handbook, Section 4600, as disclosed in Note 7, and extrapolated the liabilities to December 31, 2011. The valuation as at December 31, 2011 was based on assumptions that reflect OPB's best estimates of future events such as future rates of inflation, future retirement rates and future rates of return on the pension fund. The amounts are set out in the statements of changes in pension obligations.

We hereby certify that, in our opinion:

- The data provided to us by OPB as of December 31, 2010 are sufficient and reliable;

- The actuarial assumptions used are, in aggregate, appropriate for the purposes of each valuation; emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations; and

- The methods used are appropriate for purposes of each valuation and are consistent with the applicable regulatory requirements.

Our valuations have been prepared, and our opinions given, in accordance with accepted actuarial practice.

AON HEWITT

Allan H. Shapira

Allan H. Shapira
Fellow, Canadian Institute of Actuaries
March 2, 2012

Management's responsibility for financial reporting

The financial statements of the Ontario Pension Board ("OPB") have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements are in accordance with Canadian accounting standards for pension plans. Of necessity, many amounts in the financial statements must be based on the best estimates and judgement of management with appropriate consideration as to materiality. Financial information presented throughout this annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded against unauthorized use or disposition, and proper records are maintained. The system includes careful hiring and training of staff, the establishment of an organizational structure that provides for a well-defined division of responsibilities and the communication of policies and guidelines of business conduct throughout OPB.

The Board of Directors ("Board") is ultimately responsible for the financial statements of OPB. OPB's Audit Committee assists in this responsibility by reviewing the financial statements in detail with management and the external auditors before such statements are recommended to the Board for approval. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of audits, to review their findings and suggestions for improvements in internal control, and to satisfy themselves that their responsibilities and those of management have been properly discharged.

Mark J. Fuller
President and CEO
March 2, 2012

Duncan Webb, CA
Senior Vice-President, Finance

Independent auditors' report to the directors of the Ontario Pension Board

We have audited the accompanying financial statements of the Ontario Pension Board, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits and changes in pension obligations for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Pension Board as at December 31, 2011and 2010, and the changes in its net assets available for benefits and changes in its pension obligations for the years then ended in accordance with Canadian accounting standards for pension plans.

Ernst + Young LLP

Toronto, Canada
March 2, 2012

Chartered Accountants
Licensed Public Accountants

Statements of financial position

As at December 31 *(in thousands of dollars)*	**2011**	2010
Assets		
Investments (Note 4)	**$ 17,226,895**	$ 17,246,792
Investment-related receivables (Note 4)	**40,345**	111,673
Contributions receivable (Note 5)		
Members	**25,006**	22,444
Employers and sponsor	**36,534**	154,348
Capital assets (Note 6)	**3,254**	3,505
Total assets	**17,332,034**	17,538,762
Liabilities		
Investment-related liabilities (Note 4)	**29,474**	135,456
Accounts payable and accrued charges	**31,319**	26,406
Contributions payable	**1,389**	1,050
Total liabilities	**62,182**	162,912
Net assets available for benefits	**17,269,852**	17,375,850
Pension obligations (Note 7)	**19,524,706**	18,612,515
Deficit (Note 8)	**$ (2,254,854)**	$ (1,236,665)

See accompanying notes

On behalf of the Board:

Urban Joseph

M. Vincenza Sera
Chair

J. Urban Joseph
Vice-Chair

Statements of changes in net assets available for benefits

For the year ended December 31 *(in thousands of dollars)*	2011	2010
Investment operations		
Net investment income (Note 9)	**$ 18,704**	$ 1,438,965
Operating expenses – investment operations (Note 11)	**(11,805)**	(10,237)
Net investment operations	**6,899**	1,428,728
Pension operations		
Contributions (Note 10)		
Members	**306,742**	283,457
Employers and sponsor	**408,331**	405,354
Transfer from other plans	**132,106**	142,080
Retirement pension payments	**(869,320)**	(848,068)
Termination and other benefits	**(67,982)**	(55,801)
Operating expenses – pension operations (Note 11)	**(22,774)**	(23,110)
Net pension operations	**(112,897)**	(96,088)
Net increase (decrease) in net assets for the year	**(105,998)**	1,332,640
Net assets, at beginning of year	**17,375,850**	16,043,210
Net assets, at end of year	**$ 17,269,852**	$ 17,375,850

See accompanying notes

Statements of changes in pension obligations

For the year ended December 31 *(in thousands of dollars)*	2011	2010
Pension obligations, at beginning of year	**$ 18,612,515**	$ 17,374,215
Increase in pension obligations		
Interest on pension obligations	**1,174,993**	1,165,370
Benefits accrued		
Service accrual	**553,565**	513,801
Transfer of service from other plans	**132,106**	142,080
Past service buybacks	**34,239**	29,030
Changes in plan provisions (Note 7)	-	65,300
Changes in actuarial assumptions (Note 7)	-	333,253
Total increase	**1,894,903**	2,248,834
Decrease in pension obligations		
Benefits paid	**937,302**	903,869
Experience gains	**45,410**	106,665
Total decrease	**982,712**	1,010,534
Net increase in pension obligations	**912,191**	1,238,300
Pension obligations, at end of year	**$ 19,524,706**	$ 18,612,515

See accompanying notes

Notes to the financial statements

Note 1 Public Service Pension Act

Effective January 1, 1990, the Province of Ontario ("Province") enacted the *Public Service Pension Act*, 1990 (*"PSPAct"*) to continue the pension plan for the employees of the Province and certain of its agencies. The terms of the Public Service Pension Plan ("PSPP" or the "Plan") are stated in Schedule 1 to the *PSPAct*. Ontario Pension Board ("OPB") is the administrator of the PSPP.

Note 2 Description of PSPP

The following is a brief description of the PSPP. For more complete information, reference should be made to the *PSPAct*.

a) General

The PSPP is a contributory defined benefit pension plan. Membership is mandatory for most employees who satisfy the eligibility requirements provided in the *PSPAct*. Under the PSPP, both the members and the employers make contributions. The PSPP is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency (Registration Number 0208777) as a registered pension plan not subject to income taxes.

b) Contributions

The PSPP is integrated with the Canada Pension Plan ("CPP"). Contribution rates are 6.4% of the salary on which contributions are made up to the Year's Maximum Pensionable Earnings ("YMPE") and 9.5% of the salary above the YMPE. Employers contribute matching amounts.

Ontario Provincial Police ("OPP") Officers are required to contribute to the PSPP an additional 2% of salary, which is matched by the employer. These additional contributions are used to fund the 50/30 unreduced early retirement provision available to OPP officers. Starting in 2011, the contribution rates for OPP Officers (excluding Deputy Commissioners and the Commissioner) inclusive of the additional 2% of salary were increased to 9.2% of the salary on which contributions are made up to the YMPE, and 12.3% of the salary above the YMPE. Also, starting in 2011, the contribution rates for OPP Civilians were increased to 6.775% of the salary on which contributions are made up to the YMPE, and 9.875% of the salary above the YMPE.

Contributions from members and employers are remitted to OPB. The portion of these contributions that exceeds *Income Tax Act (Canada)* limits is transferred to the Province's Public Service Supplementary Benefits Account ("PSSBA").

c) Pensions

A pension is payable at age 65 (or at age 60 for some members with pre-1966 pension credits) based on the number of years of credit in the PSPP multiplied by 2% of the average salary during the best consecutive 60-month period, less an offset for integration with the CPP at age 65. An unreduced pension can be received before age 65 if the member's age and years of credit total 90 ("Factor 90") or when the member reaches age 60 and has 20 or more years of credit. In 2009, the PSPP was amended to permit the Association of Management, Administrative and Professional Crown Employees of Ontario ("AMAPCEO") members who are deemed to be surplus by their employer to retire upon attaining Factor 80. To qualify, certain conditions must be satisfied by both the employer and the member. The surplus program for AMAPCEO was extended to March 31, 2012.

OPP Officers below the rank of Deputy Commissioner and Commissioner are eligible for a pension payable based on the average salary during the best 36-month period (with a transition provision to gradually reduce the period from the 60-month period to 36-month period in 2011). Likewise, OPP Civilians are eligible for a pension payable based on the average salary during the best 48-month period (with a transition provision to gradually reduce the period from the 60-month period to a 48-month period in 2011). In addition, OPP officers are eligible for an unreduced pension after attaining age 50 with 30 years of credit.

d) Death benefits

Upon the death of the member or pensioner, benefits may be payable to a surviving eligible spouse, eligible children, a designated beneficiary or the member's or retired member's estate.

Notes to the financial statements

e) Disability pensions

Based on meeting all eligibility criteria, a disability pension may be available to members with a minimum of 10 years of credit in the PSPP. The amount of the disability pension is dependent on years of credit and average salary.

f) Termination payments

Members terminating employment before age 55 who are eligible for a deferred pension may be entitled to transfer the commuted value of the pension to a locked-in registered retirement savings arrangement, to transfer to another pension plan, or to purchase a life annuity.

g) Escalation of benefits

Current pensions and deferred pension benefits are increased for inflation based on the Consumer Price Index to a maximum of 8% in any one year. Any inflation above 8% in any one year is applied to increase the pension in subsequent years when the adjustment is less than 8%.

Note 3 Summary of significant accounting policies

Basis of presentation

The financial statements are prepared in accordance with Canadian accounting standards for pension plans and present the position of the PSPP as a separate entity independent of the employers and Plan members.

a) Adoption of Canadian accounting standards for pension plans

Effective January 1, 2011, the Plan adopted Section 4600, *Pension Plans*, of the Canadian Institute of Chartered Accountants' ("CICA") Handbook on a retrospective basis.

In accordance with Section 4600, Canadian accounting standards for private enterprises in Part II of the CICA Handbook have been chosen for accounting policies that do not relate to the investment portfolio or pension obligations to the extent that those standards do not conflict with the requirements of Section 4600. The selection of Part II of the CICA Handbook had no effect on the accounting policies of the Plan.

As a result of the implementation of the new accounting standards, the "statements of net assets available for benefits" has been renamed the "statements of financial position".

In satisfying the fair value measurement requirements for investment assets and investment liabilities in Section 4600, the Plan has chosen to early adopt IFRS 13, *Fair Value Measurement*, in Part I of the Handbook effective January 1, 2010. IFRS 13 has been adopted on a prospective basis as permitted under Section 4600. The early adoption of IFRS 13 had no effect on the accounting policies of the Plan.

In accordance with Section 4600, the Plan presents its investments in wholly owned subsidiaries in the same manner as its other investments and no longer consolidates these entities. As a result of this change in accounting, the following amounts have been restated for financial statement presentation purposes:

Real estate debt of the subsidiary companies is now included in the fair value of the investments in the subsidiaries, rather than separately disclosed. The impact is as follows:

As at December 31 *(in thousands of dollars)*	**2011**	2010
Net assets available for benefits, before accounting changes	**$ 17,269,852**	$ 17,375,850
Decrease in the fair value of investments in real estate	**(142,807)**	(76,141)
Decrease in investment-related liabilities, real estate debt	**142,807**	76,141
Net assets available for benefits, after accounting changes	**$ 17,269,852**	$ 17,375,850

Notes to the financial statements

Investment income now includes dividends declared by the subsidiaries, rather than net income of the subsidiaries. The resultant
undistributed net income now forms part of the fair value changes included in OPB's income. Real estate investment fees of the subsidiary are no longer included with investment fees, which results in a similar adjustment to the fair value changes for investments in real estate.

For the year ended December 31 *(in thousands of dollars)*	**2011**	2010
Net investment income, before accounting changes	**$ 18,704**	$ 1,438,965
Decrease in investment income, Canadian bonds	**(746)**	(5,915)
Increase in fair value changes, Canadian bonds	**746**	5,915
Increase (decrease) in investment income, real estate	**(592)**	308,713
Decrease in fair value changes, real estate	**(165)**	(311,205)
Decrease in investment fees, real estate	**757**	2,492
Net investment income, after accounting changes	**$ 18,704**	$ 1,438,965

These changes had no impact on the overall financial position, the overall net change in net assets available for benefits or the overall pension obligations of the Plan for 2011 or 2010.

Additional disclosures have also been provided in the notes to the financial statements in accordance with Section 4600.

b) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts on the statements of changes in net assets available for benefits and changes in pension obligations during the reporting period. Actual results could differ from those estimates.

c) Investments

Investments are stated at fair value, including accrued income. For traded investments, fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value of investments is determined as follows:

(i) Short-term investments are recorded at cost, which, together with accrued interest or discount earned, approximates fair value.

(ii) Special Province of Ontario Debentures (the "Special Debentures"), bonds and real estate debt are valued at quoted market prices, where available. For those instruments for which quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields and comparable securities, as appropriate.

(iii) Equities are valued at quoted market prices at closing.

(iv) Pooled fund values are supplied by the fund administrators based upon fair value quotations.

(v) Derivative financial instruments consisting of foreign exchange forward and futures contracts are recorded at fair value using year-end market prices.

(vi) Real estate, consisting primarily of income-producing properties, and participating mortgages are valued at estimated fair value determined annually by independent appraisals. For properties acquired and held for less than six months, the fair value of such properties usually approximates the purchase price.

Notes to the financial statements

Investment transactions are recorded as of the trade date, which is the date upon which the substantial risks and rewards have been transferred. Interest and real estate income from operations are recognized on an accrual basis. Since real estate is valued on a fair value basis, depreciation and amortization are not recorded. Dividend income is recognized on the ex-dividend date. Revenue from real estate includes amounts earned from tenants related to lease agreements for its revenue-producing properties, including property tax and operating cost recoveries. Gains on the sale of properties are recognized when OPB has transferred to the purchaser the significant risks and rewards of ownership of the property, the purchaser has made a substantial commitment demonstrating its intent to honour its obligation, and collection of any additional consideration is reasonably assured. Income from participating mortgages is accrued at the rate stated in the instrument, and any participation income is recognized on an accrual basis. Net investment income (loss) also includes changes in fair values, which represent realized gains and losses from the sale of investments and unrealized gains and losses determined from the change in the difference between cost and fair value at year-end, including appraisal adjustments on real estate valuations and fair value adjustments on real estate debt. Transaction costs are expensed as incurred.

d) Pension obligations

Pension obligations are determined based on an actuarial valuation prepared by an independent firm of actuaries and accounted for under the immediate recognition approach. Under this approach, the pension obligations are based on an actuarial valuation report prepared for funding purposes. This valuation uses the projected benefit method pro-rated on service and management's best estimate of various economic and non-economic assumptions.

e) Contributions

Contributions due to the PSPP at year-end are recorded as receivable. Transfers into the Plan and purchases of prior service are recorded after cash is received and the transfer or purchase transaction is completed.

f) Capital assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the capital assets as follows:

Computer equipment	3 years
Leasehold improvements	Remaining term of lease
Furniture and fixtures	10 years

g) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair values of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end.

Notes to the financial statements

Note 4 Investments
Investments before allocating the effect of derivatives contracts

As at December 31

(in thousands of dollars)	2011	2010
Cash and short-term investments		
Canada	**$440,253**	$334,770
United States and other international	**79,405**	91,730
	519,658	426,500
Fixed income		
Special Province of Ontario Debentures	**1,364,507**	1,825,196
Bonds		
Canada	**4,324,877**	3,678,902
Other international	**412,150**	746,545
	6,101,534	6,250,643
Equities		
Canada	**2,288,547**	2,431,050
United States	**1,873,214**	1,407,845
Other international	**3,735,374**	4,281,643
	7,897,135	8,120,538
Real estate	**2,654,157**	2,399,879
Infrastructure	**4,256**	-
Participating mortgages	**50,155**	49,232
Total investments	**17,226,895**	17,246,792
Investment-related receivables		
Pending trades	**3,950**	4,347
Derivatives receivable	**36,395**	107,326
	40,345	111,673
Investment-related liabilities		
Real estate debt	-	87,553
Pending trades	**12,703**	16,777
Derivatives payable	**16,771**	31,126
	29,474	135,456
NET INVESTMENTS	**$ 17,237,766**	$ 17,223,009

Notes to the financial statements

a) Asset mix

Investments are allocated to and maintained in major asset classes within acceptable ranges with target allocation as follows:

	2011 Target	2010 Target
Cash and short-term investments	**2%**	2%
Bonds	**38%**	38%
Total interest-bearing instruments	**40%**	40%
Equity		
Canadian	**11%**	11%
International	**36%**	36%
Total equity	**47%**	47%
Real assets	**13%**	13%
Total equity and real assets	**60%**	60%

Investments in certain other asset classes are allowable, subject to Board approval.

b) Financial instruments risk

The Plan is subject to financial risks as a result of its investing activities that could impact its cash flows, income, and assets available to meet benefit obligations. These risks include market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. OPB manages these risks in accordance with its Statement of Investment Policies and Procedures, which prescribes the asset mix policy, diversification requirements, performance expectations, limits on individual investments, valuation standards, and guidelines for the management of the Plan.

Market risk - Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. Market risk is comprised of the following:

(i) **Interest rate risk** – Interest rate risk refers to the effect on the fair value of the Plan's assets and liabilities due to fluctuations in market interest rates. The value of the Plan's investments is affected by changes in nominal and real interest rates. Pension liabilities are exposed to fluctuations in long-term interest rates and inflation. The Plan has established an asset mix policy that balances interest-sensitive investments with other investments. OPB's fixed income investments have the most significant exposure to interest rate risk. Duration and weighting for the fixed income portfolio are actively managed. Modified duration is a measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. Given the Fund's modified duration of 5.4 years at December 31, 2011 (2010 – 5.5 years), a parallel shift in the yield curve of +/-1% would result in an impact on the net investments of $339.1 million (2010 - $318.5 million), with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. See the schedule of Fixed income maturities for further information.

Notes to the financial statements

(ii) **Foreign currency risk** - Foreign currency exposure arises from the Plan holding foreign exchange denominated investments and entering into contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the value of the Canadian dollar against these foreign currencies can have an impact on the fair value of investments. The Plan hedges a portion of its foreign currency exposure through the use of foreign exchange forward contracts, which are accounted for at fair value. The total currency exposure, the impact of foreign exchange forward contracts and the net currency exposure are as follows:

				2011	2010
As at December 31 *(in thousands of dollars)*	**Gross Exposure**	**Foreign Exchange Contracts Receivable**	**Foreign Exchange Contracts Payable**	**Net Exposure**	Net Exposure
U.S. Dollar	**$ 3,154,496**	**$ 1,104,771**	**$ (2,412,295)**	**$ 1,846,972**	$1,505,664
Hong Kong Dollar	**374,575**	**13,633**	**(298)**	**387,910**	377,845
Brazil Real	**216,430**	**16,424**	**(109)**	**232,745**	227,228
South Korean Won	**207,825**	**12,295**	**-**	**220,120**	211,044
Pound Sterling	**423,717**	**13,199**	**(266,885)**	**170,031**	204,651
Other	**1,672,187**	**196,994**	**(707,365)**	**1,161,816**	1,283,454
Total foreign	**6,049,230**	**1,357,316**	**(3,386,952)**	**4,019,594**	3,809,886
Canadian dollar	**11,169,098**	**3,100,670**	**(1,051,596)**	**13,218,172**	13,413,123
	$ 17,218,328	**$ 4,457,986**	**$ (4,438,548)**	**$ 17,237,766**	$17,223,009

The impact of a 1% absolute change in foreign exchange rates compared to the Canadian dollar, holding all other variables constant, is 1% of the net exposure of the impacted currency, or $40.2 million (2010 - $38.1 million) in total for all foreign currencies, as at December 31, 2011.

(iii) **Other price risk** – Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices other than those arising from foreign currency or interest rate risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. An absolute change in the fair value of OPB's investments which are exposed to other price risk will have a direct proportional impact on the fair value of the investments. OPB's investments in equities have the most significant exposure to other price risk. The impact of a 1% absolute change in the price of an investment, holding all other variables constant, is 1% of the net exposure of the impacted investment, or $79.0 million (2010 - $81.2 million), as at December 31, 2011.

Credit risk – The Plan is exposed to the risk of loss arising from a default or insolvency of a securities issuer. As at December 31, 2011, the Plan's greatest credit exposure is with the Province of Ontario, with Special Debentures valued at $1.365 billion (2010 - $1.825 billion) and bonds and short-term investments valued at $435 million (2010 - $277 million). At December 31, 2011, 77% (2010 - 76%) of bonds held had at least an "A" rating.

Liquidity risk – Liquidity risk is the risk that the Plan has insufficient cash flows to meet its pension obligations and operating expenses as they become due. The more typical cash requirements of the Plan are in the form of monthly retirement benefit payments as well as periodic termination and other benefit payments and expenses. The Plan also has financial liabilities in the form of derivatives which all mature within one year. The cash requirements and the fulfillment of any financial liabilities are typically met through cash sources such as investment income, proceeds from the sales of investments, and member and employer contributions. The majority of the Plan's assets are also invested in securities that are traded in active markets and can be divested on a timely basis. The largest sources of cash during the year were the member, employer and sponsor contributions as well as interest and principal payments from the Special Debentures, which provided $510 million (2010 - $498 million) to the Plan.

Notes to the financial statements

c) Cash and short-term investments

As at December 31 *(in thousands of dollars)*	2011	2010
Canada		
Cash	$ 31,708	$ 29,975
Short-term notes and treasury funds	404,362	304,557
Term deposits	3,400	-
Accrued interest	783	238
	$ 440,253	$ 334,770

United States and other international		
Cash	$ 56,959	$ 35,263
Short-term notes and treasury funds	18,876	26,072
Term deposits	3,569	30,393
Accrued interest	1	2
	$ 79,405	$ 91,730

d) Fixed income and equity investments

The Special Debentures are recorded at an estimated market value of $1.365 billion (2010 - $1.825 billion) by discounting cash flows based on year-end market yields of comparable bonds. There are currently three Special Debentures maturing over the next three years with a weighted average interest rate of 10.96% (2010– 11.04%).

Included in the fixed income and equities totals are the following amounts related to pooled funds:

As at December 31 *(in thousands of dollars)*	2011	2010
Equities - Canada	$ 36,119	$ 45,840
Equities - Other international	258,641	296,741

See the schedules of Fixed income maturities and of Investments over $35 million for further information.

e) Derivatives

As at December 31 *(in thousands of dollars)*	Notional	2011 Fair Value	Notional	2010 Fair Value
Equity derivatives				
Futures	$ 158,177	$ 186	$ -	$ -
Currency derivatives				
Forwards	4,473,551	19,438	4,081,936	76,200
Value of derivatives contracts	$ 4,631,728	$ 19,624	$ 4,081,936	$ 76,200

Notes to the financial statements

f) Securities lending

At year-end, $945 million (2010 - $863 million) of OPB's securities were on loan to third parties. Pursuant to a securities lending agreement, OPB's custodian arranges the loans and OPB earns a fee. The custodian follows strict lending criteria and over-collateralizes the loans with securities that have credit ratings equal to or better than the securities loaned. OPB does not employ cash collateral in its securities lending program. At year-end, $1.005 billion (2010 - $906 million) of securities were held as collateral, providing a 6.3% (2010 - 5.1%) cushion against market and credit risks.

g) Fair values

Canadian accounting standards for pension plans require disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mutual and pooled funds; hedge funds; Government of Canada, provincial and other government bonds; Canadian corporate bonds; and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes investments with underlying real estate properties, private equity investments and securities that have liquidity restrictions.

The following tables present the level within the fair value hierarchy for each of the financial assets and liabilities measured at fair value. The tables exclude accrued income, other assets, and other liabilities that are valued at their carrying amount, which represents a reasonable approximation of fair value due to their short-term nature.

Notes to the financial statements

As at December 31, 2011 *(in thousands of dollars)*	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Short-term investments				
Canada		$ 407,762		$ 407,762
United States and other international		22,445		22,445
Fixed income				
Special Province of Ontario Debentures		1,297,855		1,297,855
Bonds				
Canada		4,027,209	$ 262,170	4,289,379
United States and other international		404,176		404,176
Equities				
Canada	$ 2,246,351	36,119	194	2,282,664
United States	1,870,534			1,870,534
Other international	3,469,504	258,641		3,728,145
Futures	186			186
Participating mortgages			50,155	50,155
Real estate			2,654,157	2,654,157
Infrastructure			4,256	4,256
Forward exchange contracts		36,209		36,209
	$ 7,586,575	**$ 6,490,416**	**$ 2,970,932**	**$ 17,047,923**
Financial liabilities				
Forward exchange contracts		**$ (16,771)**		**$ (16,771)**

As at December 31, 2010 *(in thousands of dollars)*	Level 1	Level 2	Level 3	Total Fair Value
Financial assets				
Short-term investments				
Canada		$ 304,557		$ 304,557
United States and other international		56,465		56,465
Fixed income				
Special Province of Ontario Debentures		1,738,977		1,738,977
Bonds				
Canada		3,468,221	$ 189,102	3,657,323
United States and other international		735,035		735,035
Equities				
Canada	$ 2,379,087	47,325		2,426,412
United States	1,395,397			1,395,397
Other international	3,984,544	296,741		4,281,285
Participating mortgages			49,232	49,232
Real estate			2,050,632	2,050,632
Forward exchange contracts		107,326		107,326
	$ 7,759,028	$ 6,754,647	$ 2,288,966	$ 16,802,641
Financial liabilities				
Real estate debt		$ (87,553)		(87,553)
Forward exchange contracts		(31,126)		(31,126)
		$ (118,679)		$ (118,679)

Notes to the financial statements

There were no significant transfers between Levels 1, 2, or 3 during the years ended December 31, 2011 and 2010.

The following tables present a reconciliation of all Level 3 assets and liabilities measured at fair value for the years ended December 31, 2011 and 2010.

(in thousands of dollars)	**Fair Value as at January 1, 2011**	**Transfers In/(Out)**	**Acquisitions**	**Dispositions**	**Fair Value Changes**	**Fair Value as at December 31, 2011**
Financial assets						
Bonds						
Canada	$ 189,102	$(6,383)	$ 63,888	$ -	$ 15,563	$ 262,170
Equities						
Canada	-	194	-	-	-	194
Participating mortgages	49,232	-	2,888	-	(1,965)	50,155
Real estate	2,050,632	266,417	204,469	(74,340)	206,979	2,654,157
Infrastructure	-	-	4,252	-	4	4,256
	$ 2,288,966	**$ 260,228**	**$ 275,497**	**$ (74,340)**	**$ 220,581**	**$ 2,970,932**

(in thousands of dollars)	Fair Value as at January 1, 2010	Transfers In/(Out)	Acquisitions	Dispositions	Fair Value Change	Fair Value as at December 31, 2010
Financial assets						
Bonds						
Canada	$ 27,581	$ -	$ 147,470	$ -	$ 14,051	$ 189,102
Equities						
Canada	550	-	-	(278)	(272)	-
United States	380	-	-	(380)	-	-
Participating mortgages	46,038	-	1,465	-	1,729	49,232
Real estate	2,139,808	-	68,021	(319,221)	162,024	2,050,632
	$ 2,214,357	**$ -**	**$ 216,956**	**$ (319,879)**	**$ 177,532**	**$ 2,288,966**

h) Commitments

As at December 31, 2011, OPB has provided funding commitments for certain investments in the amount of $432.8 million (of which $195.6 million has been advanced to date).

i) Subsequent Events

As at March 1, 2012, OPB has acquired real estate investments in the amount of $564.5 million (of which $15.0 million had been advanced to December 31, 2011).

Notes to the financial statements

Note 5 Contributions receivable

As at December 31 *(in thousands of dollars)*	**2011**	2010
Contributions receivable -Members	**$ 25,006**	$ 22,444
Employers	**36,534**	32,541
Sponsor – Special payments	-	143,217
Sponsor – additional current service	-	(21,410)
Contributions receivable – Employers and Sponsor	**$ 36,534**	$ 154,348

Note 6 Capital Assets

As at December 31 *(in thousands of dollars)*	**Cost**	**Accumulated depreciation**	**2011 Net book value**
Computer equipment	**$ 3,109**	**$ 2,465**	**$ 644**
Furniture and fixtures	**2,384**	**880**	**1,504**
Leasehold improvements	**1,502**	**396**	**1,106**
Total capital assets	**$ 6,995**	**$ 3,741**	**$ 3,254**

As at December 31 *(in thousands of dollars)*	Cost	Accumulated depreciation	2010 Net book value
Computer equipment	$ 2,625	$ 2,071	$ 554
Furniture and fixtures	2,373	650	1,723
Leasehold improvements	1,489	261	1,228
Total capital assets	$ 6,487	$ 2,982	$ 3,505

Note 7 Pension obligations

a) Accounting basis

The value of pension obligations of $19.525 billion (2010 - $18.613 billion) is an estimate of pension benefit obligations accrued to date for members and retired members accounted for under the immediate recognition approach. The accounting valuation is determined by applying best estimate assumptions and the projected benefit method (pro-rated on service), as required under Canadian accounting standards for pension plans. Under this method, the accrued pension benefits are based on service earned up to the reporting date. The accrued pension benefits as at December 31, 2011 were computed by extrapolating data used for the December 31, 2010 funding valuation prepared by the independent actuary.

Actuarial assumptions - The actuarial assumptions used in determining the value of accrued pension benefits reflect management's best estimate of future economic and non-economic events. The primary economic assumptions, as at December 31, are:

	2011	2010
Investment return	**6.35%**	6.35%
Inflation	**2.50%**	2.50%
Real rate of return	**3.85%**	3.85%
Salary increases	**3.50% + promotional scale**	3.50% + promotional scale

Notes to the financial statements

The non-economic assumptions include mortality, withdrawal and retirement rates.

b) Funding basis

The funding valuation of the PSPP is based on methods required under the *PSPAct* and the *Pension Benefits Act (*Ontario*)* *("PBA")*. The *PBA* and the *Income Tax Act (*Canada*)* require that an actuarial funding valuation of the PSPP be completed and filed with the regulatory authorities at least every three years. The most recent filing was a funding valuation as at December 31,

2010, prepared by Aon Hewitt, which disclosed a funding shortfall of $1.191 billion on a going concern basis. The next funding valuation that is required to be filed will be as at December 31, 2013.

The funding valuation is used as a basis for funding and Plan design decisions.

In 2010, an additional pension obligation of $65.3 million was accrued, resulting from the Plan changes coming into effect in 2011 for OPP Officers and Civilians. These pension changes are described in Note 2(c). Contribution increases from these member groups, described in Note 2(b), are sufficient to fund this additional cost.

Note 8 Deficit

In these financial statements, the amount by which net assets available for benefits is less than the pension obligations is represented by the deficit, which as at December 31, 2011 was $2.255 billion (2010 - $1.236 billion)

Differences between the accounting and funding valuation results may arise due to such factors as variances between estimated and actual data, economic and demographic assumptions or conditions, actuarial methodology, and subsequent events.

Notes to the financial statements

Note 9 Net investment income

For the year ended December 31

(in thousands of dollars)	**Investment Income[1]**	**Fair Value Changes[2]**	**2011 Total**	Investment Income[1]	Fair Value Changes[2]	2010 Total
Cash and short-term investments						
Canada	$8,204	$(1,203)	$7,001	$9,076	$(6,000)	$3,076
United States and other international	179	(71,638)	(71,459)	187	147,056	147,243
	8,383	(72,841)	(64,458)	9,263	141,056	150,319
Fixed income						
Special Province of Ontario Debentures	144,501	(95,331)	49,170	183,061	(125,114)	57,947
Bonds						
Canada	181,032	189,428	370,460	158,138	113,173	271,311
United States and other international	36,466	(563)	35,903	31,872	(61,054)	(29,182)
	361,999	93,534	455,533	373,071	(72,995)	300,076
Equities						
Canada	58,540	(280,897)	(222,357)	52,919	274,539	327,458
United States	33,471	13,540	47,011	25,965	102,284	128,249
Other international	112,848	(610,103)	(497,255)	91,009	212,507	303,516
	204,859	(877,460)	(672,601)	169,893	589,330	759,223
Real estate	148,071	206,979	355,050	427,721	(153,339)	274,382
Infrastructure	-	4	4			
Participating mortgages	2,888	(1,965)	923	4,282	1,729	6,011
Total investment income (loss)	$726,200	$(651,749)	$74,451	$984,230	$505,781	$1,490,011
Investment management and custodial fees			(55,747)			(51,046)
Net investment income			$18,704			$1,438,965

[1] Investment income includes interest on cash and short-term investments, fixed income and participating mortgages, dividend income on equities, and real estate operating income.

[2] Gains (losses) on cash and short-term investments include foreign exchange contracts.

Notes to the financial statements

a) Interest income

For the year ended December 31

(in thousands of dollars)	2011	2010
Cash and short-term investments		
Canada		
Cash	$ 2,930	$ 2,051
Short-term notes and treasury funds	5,209	7,025
Term deposits	65	-
	$ 8,204	$ 9,076
United States and other international		
Cash	$ 89	$ 32
Short-term notes and treasury funds	5	9
Term deposits	85	146
	$ 179	$ 187

Earnings from pooled short-term investment funds are included with short-term notes and treasury funds.

b) Dividend income

Dividend income includes $6.69 million (2010 - $5.59 million) from pooled equity funds.

c) Investment fees

For the year ended December 31

(in thousands of dollars)	2011	2010
Portfolio fund management	$40,078	$35,758
Transaction costs	10,720	11,148
Custodial	3,734	3,114
Real estate	1,215	1,026
	$55,747	$51,046

Transaction costs include commissions and fees on trades. Additional transaction costs included in real estate expense total $73 thousand (2010 - $691 thousand).

Note 10 Contributions

For the year ended December 31

(in thousands of dollars)	2011	2010
Members		
Current service required	$ 276,434	$ 258,793
Prior service	30,308	24,664
Total contributions from members	306,742	283,457

Notes to the financial statements

Employers		
Current service		
Regular contributions	**276,536**	259,063
PSSBA transfer	**(14,039)**	(13,477)
For members receiving Long Term Income Protection benefits	**8,285**	7,602
Prior service	**3,932**	4,366
	274,714	257,554
Sponsor payments		
Special payments	**126,794**	146,660
Additional current service	**6,823**	1,140
	133,617	147,800
Total contributions from employers and sponsor	**408,331**	405,354
Total contributions	**$ 715,073**	$ 688,811

The contribution requirements are set out in the *PSPAct* and summarized in Note 2(b).

Members who are receiving benefits on Long Term Income Protection ("LTIP") have their contributions to the PSPP paid by their employers.

The Province, as sponsor of the Plan, contributed $126.794 million (2010 - $146.660 million) in Special Payments in 2011 towards the funding shortfall identified in the filed funding valuation as at December 31, 2010. In 2011, the Province made $6.823 million (2010 - $1.140 million) in additional employer current service contributions.

Note 11 Operating expenses

Pension operations

For the year ended December 31
(in thousands of dollars)

	2011	2010
Staffing costs	**$ 13,358**	$ 13,562
Staff development and support	**303**	428
Office premises and operations	**3,143**	3,077
Information technology and project management	**4,067**	4,049
Professional services	**810**	823
Communication	**294**	281
Depreciation	**532**	602
Board remuneration	**120**[1]	98
Audit	**147**	190
	$ 22,774	$ 23,110

Notes to the financial statements

Investment operations

For the year ended December 31

(in thousands of dollars)	**2011**	2010
Staffing costs	**$ 6,403**	$ 5,657
Staff development and support	**220**	285
Office premises and operations	**1,914**	1,795
Information technology and project management	**1,160**	1,099
Professional services	**1,493**	869
Communication	**126**	120
Depreciation	**226**	224
Board remuneration	**120**[1]	98
Audit	**143**	90
	$ 11,805	$ 10,237

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[1] During 2011, Board members were provided with retroactive pay totalling $56 thousand, which covered the period from July 1, 2007 to December 31, 2010. This pay represented the difference in remuneration rates paid by OPB and the rates previously approved by Provincial Order-in-Council and not communicated to OPB. No interest was applied to any retroactive payments.

Included in the above operating expenses are:

External audit services

For the year ended December 31

(in thousands of dollars)	**2011**	2010
External audit and related services provided to Ontario Pension Board	**$ 104**	$ 96
External audit and related services provided to and recorded by subsidiary operations	**204**	139
Total fees	**$ 308**	$ 235

Actuarial services

For the year ended December 31

(in thousands of dollars)	**2011**	2010
Actuarial services provided to Ontario Pension Board	**$ 336**	$ 326

Note 12 Capital management

The funding surpluses or deficits determined periodically through the funding valuations prepared by an independent actuary are defined as the Plan's capital. The actuary's funding valuation is used to measure the long-term health of the Plan. The latest actuarial valuation report for funding purposes was prepared by Aon Hewitt as of December 31, 2010, which disclosed a funding shortfall of $1.191 billion on a going concern basis and an excess of $784 million on a solvency basis. The date of the next required actuarial valuation for funding purposes is December 31, 2013.

The objective of managing the Plan's capital is to ensure the Plan is funded to fully pay out the Plan's benefits. The funding valuation determines the annual minimum contribution levels to eliminate any shortfalls. The Plan's Statement of Investment Policies and Procedures also provides guidance with respect to the investment of the Plan's assets in order to assist with the management of any funding excesses or shortfalls. For 2011, the contributions to the Plan were made in accordance with the funding requirements as specified by the most recent actuarial funding valuation.

Notes to the financial statements

Note 13 Comparative financial statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2011 financial statements.

Note 14 Compensation

Compensation of the senior management team includes base salary, incentives, insured benefits and supplementary retirement incentives. Compensation totals, excluding retirement benefits, for the President & CEO, Chief Investment Officer and all Senior Vice-Presidents and directly reporting Vice President:

For the year ended December 31	Year	Base salary	Incentives[1]	Taxable benefits & allowances[2]	Total
Mark J. Fuller, President and CEO[3]	2011	$398,631	$ 141,300[4]	$11,321	$551,252
	2010	398,631	141,300[4]	11,376	551,307
	2009	398,631	87,170	11,381	497,182
	2008	398,321	121,300[5]	11,403	531,024
	2007	332,648	140,242	11,304	484,194
R. Paul Edmonds, Senior Vice-President, Corporate Affairs, and General Counsel[6]	2011	288,478	90,625	11,968	391,071
	2010	266,086	89,695	14,650	370,431
	2009	266,086	44,639	14,547	325,272
	2008	208,775	66,055	11,617	286,447
Jill Pepall, Chief Investment Officer[7]	2011	361,044	118,125	10,072	489,241
	2010	310,178	98,725	6,862	415,765
	2009	86,702	12,083	30	98,815
Peter Shena, Senior Vice-President, Pensions and Stakeholder Relations[8]	2011	288,487	95,156	11,968	395,611
	2010	266,477	89,827	14,650	370,954
	2009	266,477	44,855	14,547	325,879
	2008	258,995	75,098	13,513	347,606
	2007	201,257	55,548	5,175	261,980
Duncan Webb, Senior Vice-President, Finance[9]	2011	298,973	93,750	11,986	404,709
	2010	298,973	100,781	14,691	414,445
	2009	280,575	50,156	13,640	344,371
Anne Catherall, Vice-President, Corporate Services[10]	2011	189,151	52,330	283	241,764
	2010	176,972	46,615	296	223,883
	2009	156,892	21,226	261	178,379
	2008	147,343	32,861	262	180,466
	2007	130,116	30,530	235	160,881

[1] Incentives earned in 2008 to 2011 are paid in March of the following year.

[2] Includes life insurance, car allowance and parking. On June 1, 2011, the Management Board of Cabinet issued a Perquisites Directive mandating that all car allowances were to be discontinued throughout the Ontario ministries, classified agencies and other public entities as prescribed by the Public Sector Expenses Review Act. After obtaining approval to alter the employment contracts through the Human Resources Committee and the Board of Directors, and after giving appropriate notice to those executives affected, OPB was in compliance with this Directive as of January 1, 2012.

[3] Mr. Fuller was appointed President on January 1, 2008. He was appointed to President and CEO on January 1, 2009. Upon promotion to President and CEO, Mr. Fuller deferred a $50,000 salary increase. This deferral has continued through to December 31, 2011.

[4] For 2011, the Board of Directors approved an incentive of $150,000. Mr. Fuller voluntarily reduced his 2011 incentive to the 2010 level of $141,300. For 2010, the Board of Directors approved an incentive of $165,000. Mr. Fuller voluntarily reduced his 2010 incentive to the 2008 level of $141,300.

[5] For 2008, the Board of Directors approved an incentive of $141,300 for Mr. Fuller. During 2009, Mr. Fuller, at his own initiative, reduced his 2008 incentive and repaid $20,000, leaving an incentive of $121,300.

[6] Start date of March 17, 2008.

[7] Start date of September 8, 2009. Appointed as Acting Senior Vice-President, Investments on May 4, 2010 and promoted to Chief Investment Officer on December 2, 2010.

[8] Promoted to Senior Vice-President, Stakeholder Relations and Pension Policy on March 1, 2008 and Senior Vice-President, Pensions and Stakeholder Relations on December 1, 2009.

[9] Start date of January 19, 2009.

[10] Promoted to Acting Vice-President, People and Corporate Business Resources on February 2, 2009, and Vice-President, Corporate Services on January 1,2010.

Notes to the financial statements

Compensation for the President and CEO is approved by the Board. Compensation for the Senior Vice-Presidents and Chief Investment Officer is approved by the Human Resources Committee of the Board. Incentives are performance-based.

The above-noted individuals are entitled to benefits from both the PSPP and the PSSBA.

The President and CEO, CIO, and the Senior Vice-Presidents also participate in a Supplemental Executive Retirement Plan ("SERP") that provides additional retirement benefits equal to 1.5% of the best five-year average annual base salary for each year of service with the Ontario Pension Board. All the other provisions of the SERP mirror the provisions of the PSPP, including the exclusion of incentives from the pension entitlement calculation. The SERP is an unregistered arrangement that is non-contributory and not funded.

Fixed income maturities

		2011		2010
As at December 31 *(in thousands of dollars)*	**Fair Value**	**Current Yield %**	Fair Value	Current Yield %
Special Province of Ontario Debentures				
0-1 year	**$ 290,205**	**10.05**	$ 261,415	11.26
1-5 years	**1,007,650**	**9.19-11.10**	1,477,562	8.80-9.41
Accrued interest	**66,653**		86,219	
	1,364,508		1,825,196	
Bonds				
Canadian:				
0-1 year	**512,075**	**1.11-6.49**	157,507	1.25-10.14
1-5 years	**1,055,322**	**1.00-13.46**	1,127,132	1.01-12.15
5-10 years	**1,184,512**	**1.49-19.68**	1,140,463	0.94-12.72
> 10 years	**1,535,961**	**2.58-10.22**	1,224,232	3.24-8.89
Accrued interest	**37,006**		29,568	
	4,324,876		3,678,902	
United States and other international				
0-1 year	**37,640**	**3.15-13.29**	9,032	6.02-7.57
1-5 years	**133,857**	**2.93-14.88**	220,386	2.25-14.51
5-10 years	**176,255**	**2.87-10.73**	411,505	3.33-11.76
> 10 years	**56,424**	**4.04-9.90**	90,253	3.98-11.35
Accrued interest	**7,974**		15,370	
	412,150		746,546	
Total fixed income	**$ 6,101,534**		$ 6,250,644	

Notes to the financial statements

Investments over $35 million

As at December 31, 2011

(in thousands of dollars)	Maturities	Coupon %	Fair Value [1]
Cash and short-term investments			
Canada:			
Government of Canada			$ 92,277
Province of Ontario			49,179
Fixed income			
Special Province of Ontario Debentures	2012-2014	10.38-11.19	1,297,855
Bonds:			
Canada:			
Government of Canada	2012-2045	1.00-10.50	978,047
Province of Ontario	2013-2041	3.15-8.50	382,543
Province of Quebec	2013-2043	3.50-9.38	130,832
Royal Bank of Canada	2012-2053	2.68-5.81	120,455
Canadian Imperial Bank of Commerce	2012-2108	2.65-10.25	110,542
Bank of Nova Scotia	2013-2108	2.74-7.80	106,001
GE Capital Canada	2012-2037	2.10-5.73	91,530
Bank of Montreal	2012-2025	2.96-6.17	81,403
Rogers Communications Inc.	2016-2041	4.70-6.68	76,955
Toronto Dominion Bank	2013-2108	2.95-7.24	75,581
Bell Canada	2014-2037	3.60-7.85	73,242
Province of British Columbia	2013-2042	3.25-9.95	64,456
Sun Life Financial Inc.	2019-2108	4.57-7.90	57,237
Shaw Communications Inc.	2014-2039	5.50-6.75	52,967
Great-West Life Co.	2018-2068	4.65-7.13	48,745
Wells Fargo Financial Canada Corp.	2012-2016	3.70-6.05	44,939
Hydro One Inc.	2013-2046	2.95-7.35	43,510
Loblaw Companies Ltd.	2013-2036	4.85-6.85	42,553
Ford Credit Canada Ltd.	2013-2015	4.20-7.50	42,526
Manulife Financial Corp	2014-2108	4.08-7.77	41,218
Enbridge Inc.	2016-2050	4.04-5.75	37,511
407 International Inc.	2015-2041	3.87-7.13	36,258
Morgan Stanley	2012-2017	4.50-4.90	35,009
Private Debt			
OPB Investment Inc. (holding company, 100% owned)			253,574
Real estate			
Investment in real estate holdings over $35 million, comprising of OPB Realty Inc. (holding company, 100% owned), OPB EMTC Inc. (holding company, 100% owned), and RXR Real Estate Fund.			2,552,420
Participating mortgages	2019	5.00	37,360

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[1] Excludes accrued income, includes guaranteed instruments issued by subsidiaries/agencies.

Notes to the financial statements

(in thousands)	Shares/Units [2]	Fair Value [2]
Equities		
Canada:		
Toronto-Dominion Bank	2,101	160,249
Bank of Nova Scotia	2,157	109,657
Royal Bank of Canada	2,017	104,820
Canadian National Railway Co.	1,249	100,070
Canadian Natural Resources Ltd.	2,281	87,002
Rogers Communications Inc.	1,451	56,955
TransCanada Corp.	1,257	55,995
Manulife Financial Corp.	4,749	51,532
Potash Corp. Of Saskatchewan	1,210	50,967
Canadian Imperial Bank Of Commerce	691	50,956
Suncor Energy Inc.	1,664	48,877
Cenovus Energy Inc.	1,322	44,716
Telus Corp.	760	43,215
Talisman Energy Inc.	3,221	41,806
Canadian Tire Corp Ltd.	629	41,459
Encana Corporation	1,941	36,661
Jarislowsky Fraser Equity Fund	1,975	36,119
United States:		
SPDR Gold Shares	635	98,337
Apple Inc.	121	49,861
Johnson & Johnson	634	42,316
Exxon Mobil Corp.	482	41,569
Amazon.com Inc.	223	39,320
Other International:		
Leith Wheeler Intl Fund	17,341	218,634
Samsung	371	127,835
Taiwan Semiconductor Manufacturing Co.	17,990	74,986
Vale SA	3,484	73,587
Petroleo Brasileiro SA	4,189	70,877
China Mobile Ltd.	4,443	44,212
GE Asset MGMT Trust China A Shares	4,986	40,008
Baidu Inc. China	334	39,665
Gazprom OAO	3,518	38,187
Lukoil OAO	688	37,152

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[2] Includes all share classes and American Depository Receipts.

Notes to the financial statements

Real estate properties

As At December 31, 2011 *(in thousands of square feet)*	Location	Area
Retail		
Lougheed Lands	Burnaby	56
Aberdeen Village Centre	Kamloops	104
Christy's Corner	Edmonton	111
Marlborough Mall	Calgary	543
Portland Place	Calgary	149
Gaetz Avenue Crossing	Red Deer	177
St. Vital Centre	Winnipeg	928
Pen Centre	St. Catharines	1,038
Pickering Town Centre	Pickering	896
Carlingwood Shopping Centre	Ottawa	526
Halifax Shopping Centre	Halifax	528
Halifax Shopping Centre Annex	Halifax	420
2003 Gottingen Street	Halifax	26
West End Mall	Halifax	185
Erin Mills Town Centre	Mississauga	845
Erin Mills Town Plaza	Mississauga	59
		6,591
Office		
Marlborough Professional Bldg.	Calgary	51
One Queen Street East / 20 Richmond Street East	Toronto	503
Halifax Office Complex	Halifax	114
Pickering Office Tower	Pickering	117
		785
Industrial		
Mississauga Industrial	Mississauga	2,904
Total properties		**10,280**

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Ontario

June 27, 2012

Pension Benefits Guarantee Fund
Management's Responsibility for Financial Information

The Superintendent of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* is responsible for the administration of the Pension Benefits Guarantee Fund.

Under the direction of the Superintendent, Management of FSCO is responsible for the integrity and fair presentation of all information in the financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian Public Sector Accounting Standards. The preparation of financial statements involves the use of management's judgment and best estimates particularly when transactions affecting the current period cannot be determined with certainty until future periods.

Management of FSCO, in the administration of the Pension Benefits Guarantee Fund, is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and safeguarding of its assets.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards. They have been approved by the Commission's Audit & Risk Committee. The Auditor's report follows.

K. David Gordon
Deputy Superintendent, Pensions

Javier Aramayo
Acting Chief Accountant

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Financial Services Commission of Ontario and to the Minister of Finance

I have audited the accompanying financial statements of the Pension Benefits Guarantee Fund of the Financial Services Commission of Ontario, which comprise the balance sheets as at March 31, 2012, March 31, 2011 and April 1, 2010 and the statements of operations and fund surplus and cash flows for the years ended March 31, 2012 and March 31, 2011, and the statement of re-measurement gians and losses for the year ended March 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission's Pension Benefits Guarantee Fund as at March 31, 2012, March 31, 2011 and April 1, 2010, and its results of operations and fund surplus, and its cash flows for the years ended March 31, 2012 and March 31, 2011, and its re-measurement gains and losses for the year ended March 31, 2012 in accordance with Canadian public sector accounting standards.

Sustainability of the Fund

As referred to in note 11, the sustainability of the Fund is dependent upon recent changes brought about by the approval of a new regulation effective January 1, 2012.

Peall

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
June 27, 2012

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Balance Sheet
As at March 31, 2012

	March 31, 2012 ($ '000)	March 31, 2011 ($ '000)	April 1, 2010 ($ '000)
ASSETS			
Current			
Cash	1	1	1
Accounts receivable	104,689	50,558	40,444
Investments (Note 5)	233,085	617,028	628,348
	337,775	667,587	668,793
LIABILITIES AND FUND DEFICIT			
Current			
Accounts payable and accrued liabilities	7,937	3,997	3,456
Current portion of loan payable (Note 6)	11,000	11,000	11,000
Claims payable	109,287	521,910	410,751
	128,224	536,907	425,207
Loan payable (Note 6)	133,309	136,861	140,243
	261,533	673,768	565,450
Fund surplus / (deficit) from operation	76,128	(6,181)	103,343
Accumulated Remeasurement Gains	114	-	-
Fund surplus / (deficit)	76,242	(6,181)	103,343
	337,775	667,587	668,793

See accompanying notes to financial statements

Approved by:

Philip Howell

Chief Executive Officer
and Superintendent of Financial Services
Financial Services Commission of Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Operations and Fund Surplus
For the year ended March 31, 2012

	March 31, 2012 ($ '000)	**March 31, 2011 ($ '000)**
Revenue		
Premium revenue	106,847	57,419
Pension plan recoveries (Note 8)	12,384	4,444
Investment income (Note 5)	3,087	5,242
	122,318	67,105
Expenses		
Claims	29,973	166,472
Amortization of loan discount (Note 6)	7,447	7,618
Pension consulting services (Note 9)	2,064	1,797
Administration fee (Note 10)	480	508
Investment management fees (Note 10)	85	205
Unrealized loss (gain) on investments (Note 5)		71
	40,049	176,671
Recoveries of pension consulting services	(40)	(42)
Excess of revenue over expenses / (expenses over revenue)	82,309	(109,524)
Fund surplus / (deficit), beginning of year	(6,181)	103,343
Fund surplus / (deficit), end of year	76,128	(6,181)

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Cash Flows
For the year ended March 31, 2012

	March 31, 2012 ($ '000)	March 31, 2011 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess of revenue over expenses / (expenses over revenue)	82,309	(109,524)
Items not affecting cash:		
Unrealized (gain) loss on investments (Note 5)	-	71
Amortization of loan discount (Note 6)	7,447	7,618
Loss on disposal of investments (Note 5)	293	627
	90,049	(101,208)
Changes in non cash working capital		
Accounts receivable	(54,131)	(10,114)
Accounts payable and accrued liabilities	3,940	541
Claims payable	(412,623)	111,159
	(372,764)	378
Cash flows from investing activities		
Purchases of investments	(4,145,536)	(9,661,394)
Proceeds from sale of investments	4,529,300	9,672,016
	383,764	10,622
Cash flows from financing activities		
Loan repayments	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	(0)	(0)
Cash position, beginning of year	1	1
Cash position, end of year	1	1

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Statement of Re-measurement Gains and Losses
For the year ended March 31, 2012

	March 31, 2012 ($ '000)
Accumulated re-measurement (losses), beginning of year	-
Unrealized Gains	114
Accumulated re-measurement gains, end of year	**114**

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2012

1. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the "Fund") is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the "Act").

2. FUND OPERATIONS

The purpose of the Fund is to guarantee payment of certain pension benefits of certain defined benefit pension plans wound up under conditions specified in the *Act* and regulations thereto. The regulations also prescribe an assessment payable into the Fund by plan registrants.

The Act provides that if the assets of the Fund are insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans or grants on such terms and conditions as the Lieutenant Governor in Council directs. The total liability of the Fund to guarantee pension benefits is limited to the assets of the Fund including any loans or grants received from the Province.

The Superintendent of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* is responsible for the administration of the Fund, and the Fund reimburses FSCO for the costs of the services provided. The investments of the Funds are managed by the Ontario Financing Authority, on a fee basis which are paid by the Fund.

The Fund is classified as a government not for profit organization for accounting purposes.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared by the management of FSCO in accordance with Public Sector Accounting Standards for not-for-profit organizations (PSA-NPO) as issued by the Public Sector Accounting Board (PSAB). This is the first time that the Fund has prepared its financial statements in accordance with PSA-NPO, having previously prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP). Included below are those accounting policies that are significance to the Fund. Details of how the transition from Canadian GAAP to PSA-NPO has affected the financial position and financial performance are disclosed in Note 4.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2012

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Financial Instruments
The Fund follows PSA-NPO pertaining to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair value or at cost or amortized cost.

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the statement of re-measurement gains and losses until realized. Fair value is determined from quoted prices for similar investments.
- Accounts receivable is valued at cost which approximates fair value given their short term maturities.
- Accounts payable and accrued liabilities are recorded at cost which approximates fair value given their short term maturities.
- The non-interest bearing loan payable is reflected at amortized cost using the effective interest rate method due to the concessionary nature of the loan. The initial valuation was determined by discounting future cash flows using the provincial cost of borrowing. The resulting benefit (the difference between the face value of the loan and the net present value) was accounted for as a grant in the year received and is amortized to loan discount expense over the term of the loan.

(b) Claims payable
Claims payable are liabilities in respect of those defined benefit pension plans prescribed by the Act that are wound up or in the process of being ordered wound up under conditions specified in the Act, and the amounts can be reasonably estimated. Liabilities are also recognized when there is a high probability a company will not emerge from creditor protection and the pension plan will be wound up on a specified date and the claim can be reasonably estimated. Claims payable are based on information provided by appointed pension plan administrators or estimates provided from actuarial consultants. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

Differences in the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to claims expense in the year when the actual amounts are determined.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Premium revenue

An estimate of the premium revenue due from defined benefit pension plans at rates prescribed by the Act is recorded until receipt of the annual assessment certificate nine months after the plan's fiscal year end.

Differences in premium revenue, if any, between the estimated amounts recognized and the actual revenues due are charged or credited to premium revenue in the year when the actual amounts are determined.

(d) Use of Estimates

The preparation of financial statements in accordance with PSA-NPO requires that FSCO's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates and the differences could be material. Areas where significant estimates must be made include premium revenue and claims payable.

4. CHANGE IN BASIS OF ACCOUNTING

The Fund issued financial statements for the year ended March 31, 2011 using Canadian GAAP. The adoption of PSA-NPO resulted in no retroactive adjustments to previously reported financial statements. As at April 1, 2011, the Fund early adopted PS 3450, Financial Instruments and applied the measurement provision prospectively. The adoption of this standard resulted in the inclusion of the statement of re-measurement gains and losses in the current year financial statements. The prior year financial statements, including comparative information have not been restated.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2012

5. INVESTMENTS

As administrator of the investment assets of the Fund, FSCO has formed a Fund Management Committee, developed a Statement of Investment Policies and Guidelines and appointed the Ontario Financing Authority, a related party, as investment manager. The statement provides operational objectives, investment principles, policies and guidelines for the management of the investments and is reviewed annually.

Investments consist of:

	2012 ($'000)		2011 ($'000)	
	Fair Value	Cost	Fair Value	Cost
Discounted notes	210,731	210,731	441,671	441,671
Government bonds	22,354	22,374	175,357	175,491
	233,085	233,105	617,028	617,162

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities. The realized loss on the sale of securities amounted to $293 thousand (2011 – realized loss of $627 thousand). Unrealized changes in the market value of investments are reflected separately on the statement of re-measurement gains or losses.

The Fund's investment portfolio is exposed to various risks, which are mitigated by the type of investment and therefore risk is low.

The market value sensitivity of the portfolio at the end of the last quarter was $400 thousand for a 1.00% change in rates.

Discounted notes with maturities between April 2012 and July 2012 have yields in the range of 0.926% to 1.150% (2011 – maturities between April 2011 and July 2011 and yields in the range of 0.918% to 1.180%).

Government bonds with maturities between April 2012 and June 2012 have yields in the range of 1.599% to 1.981% (2011 – maturities between May 2011 and November 2011 and yields of 1.299% and 2.052%).

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2012

6. LOAN PAYABLE

Non-interest Bearing Loan

On March 31, 2004, the Fund obtained a $330 million loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of $11 million. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund. Repayments over the next five years total $55 million.

The face value of this non-interest bearing loan has been discounted at an effective interest rate of 5.0368% to reflect its fair value outstanding as of March 31, 2012 as follows:

	2012 ($'000)	2011 ($'000)
Face Value	242,000	253,000
Less: Discount	(97,691)	(105,139)
Fair Value	144,309	147,861
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	133,309	136,861
Balance	144,309	147,861

The discount will be amortized to loan discount expense over the term of the loan based on the effective interest rate method. Amortization for the subsequent five fiscal years is as follows:

Fiscal Year	($'000)
2013	7,269
2014	7,081
2015	6,883
2016	6,676
2017	6,458

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2012

7. FINANCIAL INSTRUMENTS

The main risks that the Fund's financial instruments are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Fund is exposed to credit risk relating to the collection of receivables. The Fund considers this risk to be low.

The Fund's accounts receivable consists of premium revenue of $104.2 million, investment income of $276 thousand and the GST/HST receivable of $211 thousand.

The premium revenue receivable recorded is based on a one year projection time frame and the probability for a pension plan to become insolvent and not pay the premium within a year is very low. In addition, in the event that a pension plan would become insolvent within a year, there are legal options for the Fund that can be exercised to collect the premiums. Historically, the Fund has been able to collect the amounts estimated as premium receivable.

The risk of not collecting the investment income and the GST/HST receivable is considered to be minimal.

Liquidity Risk

The Fund's exposure to liquidity risk is minimal as the Fund has sufficient funds in its investment portfolio to settle all current liabilities. As at March 31, 2012, the Fund had an investment balance of $233 million (2011 - $617 million) to settle current liabilities of $128 million (2011 - $537 million). In addition, the Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Fund. Short-term financial instruments (receivables accounts payable) are not subject to significant market risk. The Fund manages its market risk by investing assets in low-risk and liquid securities. The Fund's market risk is considered to be low.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2012

8. PENSION PLAN RECOVERIES

Following distribution of claims and submission of a final wind up report any remaining funds are recovered by the Fund. During fiscal 2012, $12,384 thousand (2011 - $4,444 thousand) in recoveries were made by the Fund.

9. PENSION CONSULTING SERVICES

The Fund periodically engages the services of experts to represent the Fund's interests with respect to companies which have made claims against the Fund. For fiscal 2012, $2,064 thousand was paid to such experts related to negotiations involving one company (2011 - $1,797 thousand involving one company).

10. RELATED PARTY TRANSACTIONS

For fiscal 2012, an administration fee of $480 thousand (2011 - $508 thousand) was incurred and has been paid to FSCO for management salaries and benefits, accounting, information technology, legal, pension and other services. The Fund and FSCO are related parties.

Investment Management fees of $85 thousand include fees of $78 thousand (2011 - $191 thousand) paid to the Ontario Financing Authority, a related party.

The costs of processing premium revenue transactions are absorbed by FSCO without charge to the Fund.

Other related party transactions during the year have been disclosed in notes 5 and 6.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2012

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11. MEASURES TO SUSTAIN THE FUND

Regulation 466/11which came into effect January 1, 2012, implemented changes to the Fund. The most significant changes brought about by this new legislation for pension plans entitled to make a claim are as follows:

- raising the base fee per Ontario plan beneficiary (active members, retired members and other beneficiaries) from $1.00 to $5.00
- raising the maximum fee per Ontario plan beneficiary in unfunded pension plans from $100.00 to $300.00
- eliminating the current $4 million assessment cap for unfunded pension plans
- introducing a minimum assessment of $250.00 for every pension plan covered by the Fund
- eliminating the current exemption for pension plans that are assessed $25.00 or less

The increased revenues resulting from these changes should enhance the sustainability of the Fund.

12. SUBSEQUENT EVENTS

The total recoveries of $20 - 25 million dollars are expected in 2012-13.

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Provincial Judges Pension Board
and to the Minister of Finance

I have audited the accompanying Statement of Changes in Fund Balance of the Provincial Judges Pension Fund as at March 31, 2012, and a summary of significant accounting policies and other explanatory information (together the "financial statement"). The financial statement has been prepared by management in accordance with the financial reporting provisions of Section 34 of Ontario Regulation 67/92 under the Courts of Justice Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of Section 34 of Ontario Regulation 67/92 under the *Courts of Justice Act*, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on this financial statement based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statement presents fairly, in all material respects, the changes in fund balance of the Provincial Judges Pension Fund as at March 31, 2012 in accordance with the financial reporting provisions of Section 34 of Ontario Regulation 67/92 under the *Courts of Justice Act.*

Basis of Accounting

Without modifying my opinion, I draw attention to Note 2 to the financial statement, which describes the basis of accounting. The financial statement is prepared to assist the Provincial Judges Pension Fund to meet the requirement of Section 34 of Ontario Regulation 67/92 under the *Courts of Justice Act.* As a result, the financial statement may not be suitable for another purpose.

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Peall

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
June 7, 2012

Provincial Judges Pension Fund

Statement of Changes in Fund Balance
For the Year Ended March 31, 2012

	2012 ($ 000)	2011 ($ 000)
Deposits		
Contributions		
Participants	4,529	4,549
Province of Ontario (Note 4)	32,700	31,554
Interest earned	42,082	42,013
	79,311	78,116
Payments		
Pension payments and survivor allowances	29,284	27,798
Refund of contributions	652	228
	29,936	28,026
Net increase in the Fund	49,375	50,090
Fund Balance with the Minister of Finance		
Beginning of year	649,319	599,229
End of year	698,694	649,319

See accompanying notes to financial statements.

Approved on behalf of the Board:

Chair

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2012

1. Description and Status of the Fund

The Provincial Judges Pension Fund (the Fund), is administered by the Provincial Judges Pension Board as designated by Ontario Regulation 67/92, as amended, of the *Courts of Justice Act*. The Fund is not subject to the reporting requirements under the *Pension Benefits Act* and Regulations and is held within the Consolidated Revenue Fund of the Province of Ontario.

The following brief description of the Fund is provided for general purposes only. For more complete information, reference should be made to the Regulation.

(A) GENERAL

The purpose of the Fund is to provide pension payments to retired Provincial Judges and Masters who are members of the Plan or survivor allowances to the dependents of these Judges and Masters.

(B) FUNDING POLICY

Participants are required to contribute 7% of their salary to the earlier occurrence of meeting their basic service requirement or attaining age 70 years.

The contribution required from the Province is determined by an actuarial valuation as described in note 4.

(C) PENSION PAYMENTS

A pension payment is available based on the age and the number of years of full-time service for which the participant has credit upon ceasing to hold office and is based on the salary of a full-time judge of the highest judicial rank held by the participant while in office. The participant is entitled to these payments during his/her lifetime.

(D) DISABILITY PENSION PAYMENTS

A full pension is available at age 65 for participants with a minimum of five years of full-time service who are unable to serve in office due to injury or chronic illness.

(E) SURVIVOR ALLOWANCES

A survivor allowance equal to 60% of the pension payment is paid to the spouse during the spouse's lifetime or to children who meet the age, custody, education or disability criteria defined in section 22 of the Regulation.

(F) DEATH REFUNDS

A death refund can be payable to the personal representative of a participant where there is no further entitlement to a survivor allowance. The amount of the refund is equal to the participant's contributions in the Fund plus interest, less entitlements already paid out.

(G) WITHDRAWAL REFUNDS

Upon ceasing to hold office for a reason other than death, participants not eligible to receive pension payments are entitled to receive a refund of their contributions to the Fund plus interest.

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2012

1. Description of the Fund (Continued)

(H) ANNUAL INFLATIONARY ESCALATION OF ENTITLEMENTS

The annual inflationary increase for judges who retired before June 1, 2007 is based on changes in the Average Weekly Earnings published by Statistics Canada and subject to a maximum of 7% in any one year, and is effective on April 1 in every year. The increase for judges who retired on or after June 1, 2007 and elected to be paid under the plan provisions effective on that date is based on changes in the Consumer Price Index, and is effective on January 1 in every year.

(I) INTEREST REVENUE

Interest is credited to the Fund based on a calculation specified by Order-in-Council as follows:

- to the beginning balance based on the weighted averaged interest rates applicable to 25-year securities issued or guaranteed by the Province since the inception of the fund (6.18% on the April 1, 2011 balance and 6.99% on the April 1, 2010 balance);
- on the monthly excess of contributions over payments during the year at 3.99%, the estimated 25-year rate for the year, with adjustments to actual made the following year.

(J) FUNDING OF SUPPLEMENTARY BENEFITS

The *Income Tax Act (Canada) (ITA)* limits the pension benefit payable from the Fund for post-1991 service. Cabinet has approved that benefits above the ITA limit will be provided through a supplementary account in the Consolidated Revenue Fund.

Changes to the plan provisions have been drafted to comply with the *ITA*. Once in place, the Fund balance will be split between the existing account for the Fund and the new supplementary account. This account will also be held within the Consolidated Revenue Fund of the Province of Ontario.

2. Significant Accounting Policies

The financial statement has been prepared on a basis of accounting consistent with section 34 of Ontario Regulation 67/92 under the *Courts of Justice Act* which states that the Fund shall consist of contributions and money paid, transferred or credited to the Fund, less money paid out.

3. Administrative Expenses

Administrative expenses are paid by the Province of Ontario.

Provincial Judges Pension Fund

Notes to Financial Statement
March 31, 2012

4. Liability for Future Benefits

The Provincial Judges Remuneration Commission (Commission) was established under Regulation 407/93 under the *Courts of Justice Act* to conduct an independent review of the salary, pension and benefits for all provincial judges. The Commission's salary and non-pension benefits recommendations are binding; pension benefits are non-binding. The most recent report of the Commission was the combined Sixth and Seventh Triennial Provincial Judges Report covering the period from April 1, 2004 to March 31, 2010 and came into force on April 25, 2008. A new Commission for the period after March 31, 2010 has not been formed yet.

The Province is responsible for the unfunded liability of the Provincial Judges Pension Fund and funds this liability in amounts recommended by periodic actuarial valuations of the Plan. The most recent actuarial funding valuation on plan data as at March 31, 2011 became available on May 18, 2012 and recommended a contribution from the Province for fiscal 2012 of $31,908,000 based on 44.0% of the payroll of sitting judges until the next actuarial valuation. However, this actuarial valuation was not available before the Fund had to close its books to meet public accounts deadlines set by the Ministry of Finance. As a result, the actual Province's contribution of $32,700,000 (2011-$31,554,000) was based on the recommendation of the previous funding valuation on plan data as at March 31, 2008, which recommended contributing 44.3% of the payroll of sitting judges after considering the impact of the combined Sixth and Seventh Provincial Judges Report. The 2011 actuarial valuation calculated the present value of the required future government contributions as $283,590,000 (2008--$268,554,000).

Significant assumptions in the March 31, 2011 and March 31, 2008 actuarial funding valuations are as follows:

Assumption	March 2011 Valuation	March 2008 Valuation
Expected Return on Plan Assets	4.6%	5.1%
Discount Rate on Future Cash Inflows	4.6%	5.1%
Salary Rate Increases	4%	3.5% for April 1, 2009; 4% per year thereafter
Age of Retirement	graduated scale from age 60 to 75	graduated scale from age 60 to 75
Method of Valuation	Aggregate Cost Method	Aggregate Cost Method

The Public Guardian and Trustee
For the Province of Ontario

Management's Responsibility for Financial Information

Management is responsible for the financial statements and all other information presented in the financial statements. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and, where appropriate, include amounts based on Management's best estimates and judgments.

Management is also responsible for developing and maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that the Public Guardian and Trustee of Ontario adheres to legislation and regulatory requirements. These systems include the communication of policies and the Public Guardian and Trustee of Ontario's code of ethics and business conduct throughout the organization. Management continually monitors the systems of internal controls for compliance.

The financial statements have been examined by the Office of the Auditor General. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with International Financial Reporting Standards (IFRS). The Auditor's Report outlines the scope of the auditor's examination and opinion.

Louse Stratford Public Guardian and Trustee	Joy Stevenson, CA Chief Financial Officer

July 11, 2012

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

**To Public Guardian and Trustee for the Province of Ontario
and to the Attorney General**

I have audited the accompanying financial statements of The Public Guardian and Trustee for the Province of Ontario, which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of comprehensive income, statements of changes in net assets attributable to beneficiaries, statements of changes in equity and statements of cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of The Public Guardian and Trustee for the Province of Ontario as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

Toronto, Ontario
July 11, 2012

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

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The Public Guardian and Trustee for the Province of Ontario

Statement of Financial Position

As at March 31 *in thousands of dollars*	Note	2012	2011	April 1, 2010
Estates and Trusts				
Assets				
Cash and cash equivalents	4.1	**$ 38,366**	$ 32,599	$ 20,904
Accounts receivable	6	**3,723**	3,766	3,588
Investments at fair value through profit or loss:				
Bonds and other debt securities - client owned	4.1	**41,562**	35,010	47,688
Diversified fund	4.2	**61,170**	60,399	55,413
Canadian income and dividend fund	4.3	**64,486**	62,705	53,527
Equity securities - client owned	4.4	**20,280**	17,814	20,626
Held to maturity investments:				
Fixed income funds	4.5	**1,134,771**	1,098,853	1,077,844
Real estate		**89,162**	81,162	90,698
Other assets	7	**16,116**	15,874	16,277
Total assets		**1,469,636**	1,408,182	1,386,565
Liabilities				
Accounts payable and accrued liabilities	8	**50,242**	46,213	43,146
Net assets attributable to beneficiaries of Estates and Trusts		**1,419,394**	1,361,969	1,343,419
Total liabilities and net assets attributable to beneficiaries of Estates and Trusts		**$ 1,469,636**	$ 1,408,182	$ 1,386,565
Administration Fund				
Assets				
Cash and cash equivalents		**$ 211**	$ 180	$ 665
Accounts receivable	6	**2,477**	2,205	1,994
Investments at fair value through profit or loss:				
Diversified fund	4.2	**54,001**	57,027	57,723
Canadian income and dividend fund	4.3	**19,232**	19,423	17,678
Held to maturity investments:				
Fixed income funds	4.5	**-**	1,593	4,925
Intangible assets:				
Computer Software - Client Management Information System	9	**4,653**	6,980	9,306
Total assets		**80,574**	87,408	92,291
Liabilities				
Fixed income funds	4.5	**126**	-	-
Accounts payable and accrued liabilities	8	**4,599**	4,813	9,899
Total liabilities		**4,725**	4,813	9,899
Equity				
Funds and reserves		**22,153**	24,480	26,806
Unappropriated fund		**53,696**	58,115	55,586
Total equity		**75,849**	82,595	82,392
Total liabilities and equity		**$ 80,574**	$ 87,408	$ 92,291

On behalf of The Public Guardian and Trustee for the Province of Ontario

Public Guardian and Trustee

Chief Financial Officer

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Public Guardian and Trustee for the Province of Ontario

Statement of comprehensive income - Estates and Trusts

For the year ended March 31 *in thousands of dollars*	**Note**	**2012**	2011
Estates and Trusts			
Revenue			
Pensions		$ **78,971**	$ 75,836
Social benefits		**76,643**	72,163
Other		**35,359**	30,006
		190,973	178,005
Expenses			
Accommodation		**101,849**	96,625
Allowances		**38,470**	36,253
Fees charged by the Public Guardian and Trustee	10	**23,977**	23,951
Real estate		**10,232**	7,735
Living expenses		**9,723**	9,760
Taxes		**8,970**	8,507
Other expenses		**6,614**	7,974
Medical expenses		**5,878**	5,307
Funeral expenses		**5,570**	5,112
Utilities		**3,916**	3,532
Insurance		**1,457**	1,329
Total expenses		**216,656**	206,085
Net investment income			
Interest income from OPGT fixed income funds	11.2	**37,082**	37,170
Interest and dividend income - other external sources	11.1	**6,659**	6,331
Net realized gain on sale of investments	12.1	**3,765**	2,121
Net foreign exchange gain/(loss)		**326**	(661)
Net unrealized gain/(loss) on investments at fair value through profit or loss	12.2	(3,522)	9,189
		44,310	54,150
Increase in net assets attributable to beneficiaries of Estates and Trusts		$ **18,627**	$ 26,070

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Public Guardian and Trustee for the Province of Ontario

Statement of comprehensive income - Administration Fund

in thousands of dollars	**Note**	**2012**	2011
Administration Fund			
Revenue			
Fees charged on estates and trusts		**$ 23,977**	$ 23,951
Total revenue		**23,977**	23,951
Grants received from the Ministry of the Attorney General		**13,262**	13,256
		37,239	37,207
Expenses			
Salaries, wages and benefits	14	**34,301**	33,574
General administration expenses		**3,961**	4,266
Amortization of intangible assets:			
Computer Software - Client Management Information System	9	**2,327**	2,326
Fees incurred		**1,391**	1,333
Transportation and communication expenses		**1,109**	1,115
Supplies and equipment expenses		**425**	692
Claims		**374**	237
Total expenses		**43,888**	43,543
Net investment income			
Interest and dividend income - other external sources	11.1	**2,615**	2,547
Interest (expense)/income from OPGT fixed income funds	11.2	(1,176)	179
Net foreign exchange gain/(loss)		**728**	(373)
Net realized gain on sale of investments	12.1	**2,201**	594
Net unrealized gain/(loss) on investments at fair value through profit or loss	12.2	(2,762)	5,337
		1,606	8,284
General investment expenses	13	**1,703**	1,745
Net investment income (loss)		(97)	6,539
Total comprehensive income (loss) for the year		**$** (6,746)	$ 203

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Public Guardian and Trustee
for the Province of Ontario

Statement of changes in net assets attributable to beneficiaries of Estates and Trusts

(in thousands of dollars)

	Client Trusts	Minors	Litigants	Deceased Estates	Cemetery Trusts	Forfeited Corporate Assets	Corporate Trusts	Land Titles	Total
Balance at April 1, 2010	$ 506,895	383,019	282,292	145,672	21,319	867	28	3,327	$ 1,343,419
Increase in net assets attributable to beneficiaries	5,911	14,993	7,907	(3,950)	446	659	1	103	26,070
Other changes in net assets attributable to beneficiaries									
Contributions/(Distributions) from/ (to)clients or beneficiaries	(16,756)	(6,557)	21,290	(2,965)	984	19	-	(1,265)	(5,250)
Funds escheated to the Crown (note 16)	-	-	-	(2,270)	-	-	-	-	(2,270)
Total increase in net assets attributable to beneficiaries	(10,845)	8,436	29,197	(9,185)	1,430	678	1	(1,162)	18,550
Balance at March 31, 2011	$ 496,050	391,455	311,489	136,487	22,749	1,545	29	2,165	$ 1,361,969
Increase in net assets attributable to beneficiaries	3,560	8,759	8,472	(2,634)	1	401		68	18,627
Other changes in net assets attributable to beneficiaries									
Contributions/(Distributions) from/ (to)clients or beneficiaries	25,517	(9,533)	(259)	5,673	788	17,857	-	(444)	39,599
Funds escheated to the Crown (note 16)	-	-	-	(801)	-	-	-	-	(801)
Total increase in net assets attributable to beneficiaries	29,077	(774)	8,213	2,238	789	18,258	-	(376)	57,425
Balance at March 31, 2012	$ 525,127	390,681	319,702	138,725	23,538	19,803	29	1,789	$ 1,419,394

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Public Guardian and Trustee for the Province of Ontario

Statement of changes in equity of the Administration Fund

(in thousands of dollars)

	Client Management Information System Reserve	Assurance Fund	Litigation Reserve Fund	Reserve for Doubtful Accounts	Capacity Assessment Fund	Total Funds and Reserves	Unappropriated Fund	Total Equity
Balance at April 1, 2010	$ 9,306	$ 14,300	$ 3,000	$ 100	$ 100	$ 26,806	$ 55,586	$ 82,392
2011								
Total comprehensive income for the year	-	-	-	-	-	-	203	203
Transfers to/(from) reserves								
Transfers made during the year	-	74	89	-	74	237	(237)	-
Reserves released during the year	(2,326)	(74)	(89)	-	(74)	(2,563)	2,563	-
Total increase/(decrease) in equity	(2,326)	0	0	0	0	(2,326)	2,529	203
Balance at March 31, 2011	$ 6,980	$ 14,300	$ 3,000	$ 100	$ 100	$ 24,480	$ 58,115	$ 82,595
2012								
Total comprehensive income for the year	-	-	-	-	-	-	(6,746)	(6,746)
Transfers to/(from) reserves								
Transfers made during the year	-	226	77	-	71	374	(374)	-
Reserves released during the year	(2,327)	(226)	(77)	-	(71)	(2,701)	2,701	-
Total increase/(decrease) in equity	(2,327)	0	0	0	0	(2,327)	(4,419)	(6,746)
Balance at March 31, 2012	$ 4,653	$ 14,300	$ 3,000	$ 100	$ 100	$ 22,153	$ 53,696	$ 75,849

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

The Public Guardian and Trustee
for the Province of Ontario

Statement of Cash flows

For the year ended March 31 *in thousands of dollars*	**Estates and Trusts** **2012**	 2011	**Administration Fund** **2012**	 2011
Cash flows from operating activities				
Increase in net assets attributable to beneficiaries/Total comprehensive income for the year	$ 18,627	$ 26,070	$ (6,746)	$ 203
Adjustments for:				
Amortization of intangible assets:				
Computer Software - Client Management Information System	-	-	2,327	2,326
Interest and dividend income - other external sources	(240)	684	1,287	(673)
Net unrealized (gain)/loss on investments at fair value through profit or loss	2,698	(8,837)	2,034	(4,964)
Changes in working capital items				
Accounts receivable	43	(178)	(272)	(211)
Accounts payable and accrued liabilities	4,029	3,067	(215)	(5,086)
Cash generated from operating activities	4,072	2,889	(487)	(5,297)
Net cash from operating activities	25,157	20,806	(1,585)	(8,405)
Cash flows from investing activities				
Acquisition of investments	(1,802,175)	(1,517,766)	(4,241)	(3,085)
Proceeds from sale of investments	1,753,709	1,510,251	5,424	7,000
Interest income paid to Estates and Trust clients	(1,720)	(3,332)	1,720	3,332
Interest and dividend income - other external sources	240	(684)	(1,287)	673
Acquisition of real estate	(70,066)	(57,785)		
Proceeds from sale of real estate	62,066	67,321	-	-
Acquisition of other assets		404	-	-
Proceeds from other assets	(242)		-	-
Net cash from/(used in) investing activities	(58,188)	(1,591)	1,616	7,920
Cash flows from financing activities				
Client Capital Contributions and Distributions (net)	38,798	(7,520)		
Net cash from/(used in) financing activities	38,798	(7,520)		
Increase/(decrease) in cash and cash equivalents	5,767	11,695	31	(485)
Cash and cash equivalent at April 1	32,599	20,904	180	665
Cash and cash equivalent at March 31	$ 38,366	$ 32,599	$ 211	$ 180

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Notes to financial statements

1. Reporting entity

The Office of the Public Guardian and Trustee for the Province of Ontario, Canada ("The Public Guardian and Trustee") is part of the Province of Ontario's Ministry of the Attorney General. The Public Guardian and Trustee is appointed under *The Public Guardian and Trustee Act* and performs duties under a number of statutes with the following main responsibilities:

- The management of estates of incapable adults;
- The administration of estates of persons who have died in Ontario intestate and without next-of-kin;
- The gathering of assets reverting to the Crown under the Escheats Act;
- The management of funds, mortgages and securities paid into or lodged with the Accountant of the Superior Court of Justice on behalf of minors and litigants; and
- A general supervisory role over charitable property.

The Public Guardian and Trustee has perpetual succession and an official seal and may sue and be sued in his or her corporate name. The Office of The Public Guardian and Trustee has approximately 400 staff located in six regional offices throughout the Province of Ontario with the main office located in Toronto at 595 Bay Street, Suite 800, Toronto ON, M5G 2M6.

These financial statements comprise the following:

a) Estates and Trusts	:	These represent accounts over which The Public Guardian and Trustee acts as guardian or trustee under the *Substitute Decisions Act*, the *Public Guardian and Trustee Act*, the *Crown Administration of Estates Act*, the *Estates Act* and various other statutes;
b) Administration Fund	:	This represents the operating account of The Public Guardian and Trustee. The Administration Fund is used to accumulate fees charged to each estate and trust for services as prescribed by the Fee Schedule created pursuant to *The Public Guardian and Trustee Act* and to pay operating expenses. Revenue is remitted as required to the Ministry of the Attorney General. Cash balances in the Administration Fund which are not required for operating purposes are invested along with the cash funds of Estates and Trusts. The Administration Fund receives the net interest income of these investment activities, after interest is distributed on the funds of Estates and Trusts in accordance with the interest rates prescribed by *The Public Guardian and Trustee Act*.

The Public Guardian and Trustee in its capacity as Accountant of the Superior Court of Justice also acts as custodian of mortgages in the amount of $715,000 (Mar 31, 2011: $795,000 and Apr 1, 2010: $795,000) and miscellaneous securities and documents having a face value of $4,128,949 (Mar 31, 2011: $3,757,440 and Apr 1, 2010: $3,955,640). These amounts are not reflected in the financial statements as The Public Guardian and Trustee does not act as trustee of these funds but simply as custodian of the instruments on behalf of the client. The Public Guardian and Trustee as custodian also holds letters of credit, lien bonds, guardianship bonds and performance guarantee bonds for litigants.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the first financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the reported financial position, financial performance and cash flows of the Estates and Trusts and the Administration Fund is provided in note 19.

These financial statements were authorized for issue by the Public Guardian and Trustee on July 11, 2012.

Notes to financial statements (continued)

2. Basis of preparation (continued)

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position which are measured at fair value:

- Investments at fair value through profit or loss;

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency for both Estates and Trusts and the Administration Fund. Except as otherwise indicated, all financial information presented in Canadian dollars has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year, as well as critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in note 3(d) and note 5.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position at April 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Foreign currency

Transactions in foreign currencies are translated into Canadian Dollars using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Canadian Dollars at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in Canadian Dollars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Canadian Dollars at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

Foreign currency gains and losses are reported on a net basis.

Notes to financial statements (continued)

3. Significant accounting policies (continued)

(b) Net investment income and expense

Net investment income and expense comprises interest income on funds invested, dividend income, gains on the disposal of investment securities, changes in the value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets. Income and expenses are presented on a net basis only when permitted under IFRS, for example, gains and losses from financial instruments at fair value through profit or loss.

(i) Interest income and expense

Interest income is recognized as it accrues in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument. When calculating the effective interest rate, estimates are made of future cash flows considering all contractual terms of the financial instrument, but not future credit losses. Interest received or receivable and interest paid or payable is recognized in profit or loss as interest income and interest expense respectively.

(ii) Dividend income

Dividend income is recognized in profit or loss on the date that the fund's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Dividend income from equity securities designated as at fair value through profit or loss is recognized in profit or loss as a separate line item.

(iii) Net gain from financial instruments at fair value through profit or loss

Net gain from financial instruments at fair value through profit or loss includes realized and unrealized fair value changes and foreign exchange differences, but excludes interest and dividend income. The net realized gain from financial instruments at fair value through profit or loss is calculated using the average cost method.

(c) Financial assets and liabilities

(i) Financial assets

Loans and receivables are recognized initially on the date that they are identified. All other purchases and sales of financial assets (including assets designated at fair value through profit or loss) are recognized on the settlement date, which is the date that the financial assets are delivered to or on behalf of Estates and Trusts.

Financial assets of Estates and Trust clients are derecognized as a financial asset when the contractual rights to the cash flows from the asset expire, or the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rights of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Estates and Trusts and the Administration Fund is recognized as a separate asset or liability.

Financial assets and liabilities in Estates and Trusts and the Administration Fund are offset and the net amount presented in the statement of financial position when, and only when, Estates and Trusts and the Administration Fund have a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Notes to financial statements (continued)

3. Significant accounting policies (continued)

(i) Financial assets (continued)

Financial assets in Estates and Trusts and the Administration Fund include the following: financial assets at fair value through profit or loss, held-to-maturity financial assets and loans and receivables.

The Public Guardian and Trustee does not enter into derivative financial contracts and there are no derivative financial contracts in the Estates and Trusts and the Administration Fund.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund manages, evaluates and reports internally such investments on a fair value basis and makes purchase and sale decisions based on their fair value in accordance with their documented risk management or investment strategy. Upon initial recognition, transaction costs associated with the asset are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Public Guardian and Trustee does not acquire or hold financial instruments for the purpose of trading or short-term profit taking on behalf of the Estates and Trusts and the Administration Fund.

Financial assets at fair value through profit or loss comprise investments in bonds and other debt securities, the OPGT Diversified Fund, the OPGT Canadian Income and Dividend fund and equity securities.

Held-to-maturity financial assets

If the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value, which includes any premium or discount, plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent these investment securities from being classified as held-to-maturity for the current and the following two financial years.

Held-to-maturity financial assets comprise investments in fixed income funds. Fixed income funds are funds invested in money-market instruments and in bonds under a laddered buy-and-hold strategy.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Loans and receivables comprise trade and other receivables.

Loans and receivables comprise of cash and cash equivalents and accounts receivable.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, current bank balances and short-term deposits with banks. All cash equivalents are highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

Notes to financial statements (continued)

3. Significant accounting policies (continued)

(ii) Financial liabilities

Financial liabilities are recognized initially on the date at which the Public Guardian and Trustee on behalf Estates and Trusts and the Administration Fund become a party to the contractual provisions of the instrument. The Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial liabilities comprise accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs.

(iii) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction on the measurement date. Fair value does not take into consideration transaction costs expected to be incurred on transfer or disposal of a financial instrument.

The Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Equity and fixed income securities publicly traded are measured at the bid price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate.

All changes in fair value, other than interest and dividend income, are recognized in profit or loss as part of net gain from financial instruments at fair value through profit or loss.

(iv) Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired include significant financial difficulty of the borrower, default or delinquency by a borrower, restructuring of an amount due on terms that the Public Guardian and Trustee on behalf of Estates and Trusts and the Administration Fund would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Notes to financial statements (continued)

3. Significant accounting policies (continued)

(iv) Impairment (continued)

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(d) **Real estate and other assets**

IFRS currently does not include accounting standards that specifically address the real estate and other assets that are held by Estates and Trusts. However, IFRS requires that, in the absence of an IFRS that can be specifically applied to a situation, management should use judgment in developing and applying an accounting policy to provide relevant and reliable financial information. In these circumstances, IFRS guidance for similar issues is applied, as well as measurement concepts included within the IFRS Framework.

Real estate included within the Statement of Financial Position primarily represents residential properties currently owned by clients of The Public Guardian and Trustee. Other assets comprise jewellery, art, collectibles, nominal assets, vehicles and similar items. This property does not meet the IFRS definition of property, plant and equipment, investment property or other asset classes as currently defined in IFRS. The IFRS Framework however identifies acceptable measurement bases for all assets and liabilities; these measurement bases include cost and fair value.

The policy is to measure these assets at cost or the fair value determined when the asset is initially recognized.

(e) **Intangible assets:**

Computer software – Client Management Information System

(i) Recognition and measurement

Intangible assets that are acquired by the Administration Fund and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other costs including the costs of day-to-day servicing of intangible assets is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated over the life of the asset less its residual value (which is generally assumed to be zero).

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life for the current and comparative period is 5 years.

(f) **Operating leases**

All the leases entered into by the Public Guardian and Trustee on behalf of the Estates and Trusts and the Administration Fund are classified as operating leases and are not recognized in the Statement of Financial Position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for in the period in which they are incurred.

Notes to financial statements (continued)

3. Significant accounting policies (continued)

(g) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term employee benefit plans if the Administration Fund has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Post-employment benefits

Staff of the Public Guardian and Trustee are employees of the Ontario Public Service which provides pension benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. The Ministry of Government Services (MGS) funds the employer's contribution to the Pension Funds. In addition, the cost of post-retirement, non-pension employee benefits are paid by MGS. As such, the Public Guardian and Trustee makes no contributions on these post-employment benefit plans. There is no contractual agreement or stated policy for charging the net benefit cost for the plans as a whole (measured in accordance with IAS 19, *Employee Benefits*) to individual reporting entities of the Government of Ontario.

(h) Revenue and expenses

Revenue from pensions, social benefits and settlements and items of a related nature is recognized on a cash basis when received or receivable. Compensation, transaction and service fee revenue is recognized as the related services are performed.

Investment management fees, sales commission, placement and transaction fees that do not qualify for inclusion as part of the initial measurement of an asset are expensed as the services are received.

(i) Government grants

The Public Guardian and Trustee is part of the government reporting entity. Grant revenue is in the form of partial funding of the Public Guardian and Trustee operating expenses as the expenses are incurred. Grants that compensate the Administration Fund for expenses incurred, including partial funding for the operations of The Public Guardian and Trustee by way of amounts recovered from the Ministry of the Attorney General, are recognized in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognized.

(j) Income taxes

The Public Guardian and Trustee is exempted from federal and provincial income taxes under the Income Tax Act (Canada).

(k) Funds and reserves

Client Management Information System Reserve

This reserve represents funds that were appropriated for the specific purpose of developing and implementing a new client management information system. The client management information system was developed from 2002 to 2009. During each reporting period, an amount equal to the amortization charge incurred on the client management information system is transferred from this reserve to the Unappropriated Fund.

Assurance Fund

The *Public Guardian and Trustee Act* and the regulations under the Act provide that an Assurance Fund shall be established to meet losses for which The Public Guardian and Trustee might become liable. During the year, the Assurance Fund released and was reimbursed $226,000 (2011: $73,727) by the Unappropriated Fund.

Litigation Reserve Fund

This reserve is used to cover expenses and costs of legal proceedings paid by The Public Guardian and Trustee on behalf of its litigation guardian clients. During the year, legal costs incurred on behalf of clients of $77,345 (2011: $89,182) were released from this reserve and were reimbursed by the Unappropriated Fund.

Notes to financial statements (continued)

3. Significant accounting policies (continued)

(k) Funds and reserves (continued)

Reserve for Doubtful Accounts

The intent of this reserve is to provide for all clients' accounts whereby The Public Guardian and Trustee has advanced funds on a client's behalf and has a statutory lien pursuant to section 8.1 of the *Public Guardian and Trustee Act* but may not be able to recover the amount from the client.

Capacity Assessment Fund

This reserve was set up to cover fees of capacity assessors when a client is unable to pay costs of an assessment or re-assessment. During the year, the Capacity Assessment Fund released and was reimbursed $71,044 (2011: $73,683) by the Unappropriated Fund.

Unappropriated Fund

Pursuant to Section 9(5) of the *Public Guardian and Trustee Act*, the Lieutenant Governor in Council may from time to time direct the payment into the Consolidated Revenue Fund of the Province of any balance at the credit of the Administration Fund. No such transfers were made during the year.

(l) Provisions

A provision is recognized if, as a result of a past event, the Public Guardian and Trustee has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(m) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended March 31, 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the measurement of the amounts recognized in these financial statements. However, IFRS 9 will change the classification of financial assets and IFRS 13 will introduce new requirements for fair value measurement.

IFRS 9, Financial Instruments

IFRS 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: at amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual cash terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The requirements of IFRS 9 relating to derecognition are unchanged from IAS 39.

The standard is not expected to have a significant impact on the measurement basis of the financial assets since the measurement basis (as either fair value or amortized cost) for the majority of the financial assets is not expected to change. The standard is effective for annual periods beginning on or after January 1, 2015. Earlier application is permitted. Management does not plan to adopt this standard early for Estates and Trusts and the Administration Fund.

Notes to financial statements (continued)

3. Significant accounting policies (continued)

(m) New standards and interpretations not yet adopted (continued)

IFRS 13, Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income.

IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

IFRS 13 is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. The extent of the impact of adoption of IFRS 13 has not yet been determined.

4. Investments in financial assets

4.1 Estates and Trust – client owned

In thousands of dollars	2012	2011	April 1, 2010
Cash and cash equivalents			
Cash	32,302	28,888	18,135
Short-term investments	6,064	3,711	2,769
	38,366	32,599	20,904
Client owned - Bonds and other debt securities			
Bonds - Federal Government	2,010	1,588	2,145
Bonds - Provincial Governments	1,995	1,424	2,706
Bonds – Corporate	1,964	1,881	2,353
Financial institutions	35,593	30,117	40,484
	41,562	35,010	47,688
Total fixed income investments	79,928	67,609	68,592

These balances do not include indirect client investment in Public Guardian and Trustee Funds by virtue of their unit holdings in the various OPGT funds.

The short term investments notes and bonds yield annual interest of between 0.2 - 11% (2011: 0.2 - 7.9%) and, at the reporting date, have remaining maturity periods ranging between 0 - 9 years (2011: 0 - 20 years).

Interest rates on mid term investments are as follows:

Bonds - Federal Government			
1 – 3 years	1.5–2.0%	1.5–6.0%	1.5–6.0%
3 years +	1.5–8.0%	1.5–6.0%	1.5–8.0%
Bonds - Provincial Governments			
1 – 3 years	4.8–5.0%	4.8–5.0%	5.0–6.3%
3 years +	3.3–9.9%	3.1–5.3%	4.3–6.4%
Bonds – Corporate			
1 – 3 years	0.2–5.2%	0.2–5.1%	0.2–5.1%
3 years +	0.5–3.3%	0.5–7.9%	0.5–7.9%
Financial institutions			
1 – 3 years	1.0–11%	0.5–4.9%	1.2–6.2%
3 years +	1.0–8.5%	1.0–4.0%	0.1–8.4%

Notes to financial statements (continued)

4. Investments in financial assets (continued)

4.1 Estates and Trust – client owned (continued)

Interest income is distributed to client accounts based on an interest rate as approved by The Public Guardian and Trustee's Investment Advisory Committee. During the year, the approved rate for Canadian funds from April 1, 2011 to November 30, 2011 was 3.50%, from December 1, 2011 to February 29, 2012 – 3.25% and for March 2012 – 3.00% (2011: 3.65%), and for the United States Dollar funds - 0.30% (2011: 0.30%).

4.2 Diversified fund

In thousands of dollars	2012	2011	April 1, 2010
Cash	1,128	1,785	430
Short-term notes	2,610	2,116	249
Bonds	40,180	42,333	43,401
Canadian equity securities	45,675	51,597	43,522
Foreign equity securities	28,264	28,313	25,268
Net accrual and payable	(2,686)	(8,718)	266
	115,171	117,426	113,136

The short term notes and bonds yield annual interest of between 0.76 – 9.04% (2011: 1.00 – 8.87 %) and, at the reporting date, have remaining maturity periods ranging between 0 - 96 years (2011: 0 – 96 years).

The financial assets held in the Diversified fund are owned as follows:

In thousands of dollars	2012	2011	April 1, 2010
Estates and Trusts	61,170	60,399	55,413
Administration Fund	54,001	57,027	57,723
	115,171	117,426	113,136

The Public Guardian and Trustee has a Diversified fund that includes high quality equity and fixed income securities. This fund is a unitized trust and was established in order to provide an alternative for those clients whose unique investment objectives require a broader, longer range investment strategy. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee with emphasis on the need to preserve and enhance capital over the longer term.

The investment returns on this fund accrue directly to the unit holders. The Administration Fund also holds units in the Diversified fund.

4.3 Canadian income and dividend fund

In thousands of dollars	2012	2011	April 1, 2010
Cash	12	5	103
Short-term notes	1,638	4,257	595
Bonds	35,900	32,287	32,738
Canadian equity securities	46,330	46,081	37,555
Other assets	(162)	(502)	214
	83,718	82,128	71,205

The short term notes and bonds yield annual interest of between 0.76 – 7.53% (2011: 1.44 –7.65 %) and, at the reporting date, have remaining maturity periods ranging between 0 – 95 years (2011: 0 – 96 years).

Notes to financial statements (continued)

4. Investments in financial assets (continued)

4.3 Canadian income and dividend fund (continued)

The financial assets held in the Canadian Income and Dividend Fund are owned as follows:

In thousands of dollars	2012	2011	April 1, 2010
Estates and Trusts	64,486	62,705	53,527
Administration Fund	19,232	19,423	17,678
	83,718	82,128	71,205

The Public Guardian and Trustee has a Canadian income and dividend fund that consists of a balanced portfolio of high quality income-producing Canadian securities. The fund includes dividend-paying common and preferred equities and fixed income securities designated to generate a consistent stream of income and long-term capital appreciation. The fund is subject to the investment guidelines of the *Trustee Act* and the guidelines and limitations as set by The Public Guardian and Trustee.

The income earned in this fund may be distributed in cash to unit holders monthly or reinvested in this fund. The Administration Fund also holds units in the Canadian income and dividend fund.

4.4 Equity securities – client owned

In thousands of dollars	2012	2011	April 1, 2010
Canadian listed securities	19,236	17,264	19,460
United States listed securities	523	177	298
Other listed securities	386	312	763
Unlisted securities	135	61	105
	20,280	17,814	20,626

These balances do not include indirect client investment in Public Guardian and Trustee Funds by virtue of unit holdings in the various OPGT funds.

4.5 PGT Fixed Income Fund

In thousands of dollars	2012	2011	April 1, 2010
Bonds - Federal Government	59,951	63,454	54,215
Bonds - Provincial and Municipal Governments	406,079	406,634	358,684
Bonds – Corporate	648,069	606,443	650,916
Cash and Accrued Interest	20,546	23,915	18,954
	1,134,645	1,100,446	1,082,769

The bonds yield (at cost) annual interest of between 1.83 – 5.13% (2011: 1.27 – 5.16 %) and, at the reporting date, have remaining maturity periods ranging between 0.1 – 4.8 years (2011: 0.11 – 4.52 years).

The financial assets held in the PGT Fixed Income Funds are owned as follows:

In thousands of dollars	2012	2011	April 1, 2010
Estates and Trusts	1,134,771	1,098,853	1,077,844
Administration Fund	(126)	1,593	4,925
	1,134,645	1,100,446	1,082,769

Notes to financial statements (continued)

5. Financial risk management

The Public Guardian and Trustee has exposure to the following risks arising from financial instruments:

- **Credit risk**
- **Liquidity risk**
- **Market risk**

This note presents information about The Public Guardian and Trustee's exposure to each of the above risks, and The Public Guardian and Trustee's objectives, policies and processes for measuring and managing risk, and The Public Guardian and Trustee's management of capital.

5.1 Credit risk

Management of credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Public Guardian and Trustee, resulting in a financial loss to Estates and Trusts and the Administration Fund. It arises principally from debt securities.

The Public Guardian and Trustee mitigates this risk by engaging experienced investment managers and structuring their investment policies and goals to minimize the risk to clients' capital. In particular, investments in lower investment grade fixed income instruments (typically a rating of BBB) are minimized. As well, investment managers are required to report immediately adverse changes in the credit ratings of financial instruments.

Client accounts receivable are reviewed on an individual basis; any necessary adjustments to amounts recorded are made at that time.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date for the financial assets of both Estates and Trusts and the Administration Fund was:

In thousands of dollars	2012	2011	April 1, 2010
Cash and cash equivalents	38,576	32,779	21,569
Accounts receivable	6,200	5,971	5,582
Investments at fair value through profit or loss:			
Bonds and other debt securities– client owned	41,562	35,010	47,688
Diversified fund	115,171	117,426	113,136
Canadian income and dividend fund	83,718	82,128	71,205
Held to maturity investments:			
Fixed income funds	1,134,645	1,100,446	1,082,769
	1,419,872	1,373,760	1,341,949

Notes to financial statements (continued)

5. Financial risk management (continued)

5.1 Credit risk (continued)

Credit quality

As at the reporting date, Estates and Trusts and the Administration Fund had unit investments in the Public Guardian and Trustee's unit funds that have underlying debt securities with the following credit quality:

Debt Securities	2012	2011	2010
AAA/Aaa	**12.11%**	**12.95%**	**14.65%**
AA/Aa	**85.10%**	**83.90%**	**82.53%**
BBB/Baa	**2.79%**	**3.15%**	**2.82%**

Concentration of credit risk

As at the reporting date, the debt securities of Estates and Trusts and the Administration Fund had unit investments the Public Guardian and Trustee's unit funds that have underlying debt securities that were concentrated in the following industries:

Debt Securities	2012	2011	2010
Government and public sector	**42.00%**	**45.00%**	**40.00%**
Banks and financial services	**51.00%**	**45.00%**	**49.00%**
Other corporate	**7.00%**	**10.00%**	**11.00%**

Past due and impaired assets

No financial assets carried at amortized cost were past due or impaired at either March 31, 2012, March 31, 2011 or April 1, 2010.

Notes to financial statements (continued)

5. Financial risk management (continued)

5.2 Liquidity risk

Liquidity risk is the risk that investment managers engaged by the Public Guardian and Trustee will not be able to easily liquidate a security.

The objective of the Public Guardian and Trustee is to ensure that adequate financial resources are available to meet ongoing operations and to discharge the obligations of Estates and Trusts and the Administration Fund. The Public Guardian and Trustee mitigates liquidity risk by maintaining significant holdings in short-term liquid, money market instruments.

Maturity analysis for financial instruments

As at the reporting date, the financial assets and liabilities of Estates and Trusts and the Administration Fund had the following remaining contractual maturity profile:

2012

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	38,576	38,576	-	-
Accounts receivable	6,200	5,214	-	986
Investments at fair value through profit or loss:				
Bonds and other debt securities - client owned	41,562	6,609	10,204	24,749
Diversified fund	61,170	20,507	4,135	36,528
Canadian income and dividend fund	64,486	27,149	4,470	32,867
Equity securities – client owned	20,280	20,280	-	-
Held to maturity investments:				
Fixed income funds	1,134,645	164,963	95,772	873,910
	1,366,919	283,298	114,581	969,040
Financial liabilities				
Accounts payable and accrued liabilities	54,840	6,994	-	47,846
Net assets attributable to beneficiaries of Estates and Trusts	1,419,394	1,419,394	-	-
	1,474,234	1,426,388	-	47,846

2011

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	32,779	32,779	-	-
Accounts receivable	5,971	5,413	-	558
Investments at fair value through profit or loss:				
Bonds and other debt securities - client owned	35,010	6,571	6,827	21,612
Diversified fund	60,399	17,730	5,414	37,255
Canadian income and dividend fund	62,705	30,336	7,504	24,865
Equity securities – client owned	17,814	17,814	-	-
Held to maturity investments:				
Fixed income funds	1,100,446	155,502	131,979	812,965
	1,315,124	266,145	151,724	897,255
Financial liabilities				
Accounts payable and accrued liabilities	51,026	6,868	-	44,158
Net assets attributable to beneficiaries of Estates and Trusts	1,361,969	1,361,969	-	-
	1,412,995	1,368,837	-	44,158

Notes to financial statements (continued)

5. Financial risk management (continued)

5.2 Liquidity risk (continued)

April 1, 2010

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	21,569	21,569	-	-
Accounts receivable	5,582	5,042	-	540
Investments at fair value through profit or loss:				
Bonds and other debt securities - client owned	47,688	7,349	2,019	38,320
Diversified fund	55,413	12,177	7,959	35,277
Canadian income and dividend fund	53,527	20,276	3,059	30,192
Equity securities – client owned	20,626	20,626	-	-
Held to maturity investments:				
Fixed income funds	1,082,769	162,723	109,609	810,437
	1,287,174	249,762	122,646	914,766
Financial liabilities				
Accounts payable and accrued liabilities	53,045	11,538	-	41,507
Net assets attributable to beneficiaries of Estates and Trusts	1,343,419	1,343,419	-	-
	1,396,464	1,354,957	-	41,507

5.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect investment income or the value of the holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risk comprises of currency risk, interest rate risk and other price risks (including equity price risk).

5.3.1 *Currency risk*

Currency risk is the risk that the fair value of investments assets and earnings on those assets will fluctuate as a result of changes in foreign exchange rates. Investments in the Diversified fund are exposed to this risk which is part of the return potential in the fund.. Hedging foreign currency exposure is considered by management as part of an annual review of investment policies. However, during the year, The Public Guardian and Trustee has not entered into any derivative transactions such as forward foreign exchange contracts to mitigate this risk.

At the reporting date, the carrying value of net financial assets and liabilities held in individual foreign currencies expressed in Canadian Dollars is as follows:

In thousands of dollars	2012	2011	April 1, 2010
Estates and Trusts			
United States Dollars	24,997	28,184	24,081
Euros	1,898	89	382
Other foreign currencies	1,686	372	821
	28,581	28,645	25,284

Notes to financial statements (continued)

5. Financial risk management (continued)

5.3 Market risk (continued)

5.3.1 Currency risk (continued)

The table below sets out the impact of a reasonably possible weakening of the Canadian Dollar against the other currencies by 5% (2011: 2%) at March 31. The analysis assumes that all other variables, in particular interest rates, remain constant.

In thousands of dollars	2012	2011
United States Dollars	1,250	564
Euros	95	2
Other foreign currencies	84	7
	1,429	573

A strengthening of the Canadian Dollar against the other currencies would have resulted in a proportionate but opposite effect to the amounts shown above.

5.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. By adopting a hold to maturity policy on its Fixed income fund, The Public Guardian and Trustee has significantly mitigated this risk, particularly for short-term, temporary movements in market interest rates.

A summary of the interest rate gap position, analyzed by the earlier of contractual re-pricing or maturity date, is as follows:

2012

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	38,576	38,576	-	-
Accounts receivable	6,200	5,214	-	986
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	41,562	6,609	10,204	24,749
Diversified fund	61,170	20,507	4,135	36,528
Canadian income and dividend fund	64,486	27,149	4,470	32,867
Equity securities – client owned	20,280	20,280	-	-
Held to maturity investments:				
Fixed income funds	1,134,645	164,963	95,772	873,910
	1,366,919	283,298	114,581	969,040
Financial liabilities				
Accounts payable and accrued liabilities	54,840	6,994	-	47,846
Net assets attributable to beneficiaries of Estates and Trusts	1,419,394	1,419,394	-	-
	1,474,234	1,426,388	-	47,846

Notes to financial statements (continued)

5. Financial risk management (continued)

5.3 Market risk (continued)

5.3.2 Interest rate risk (continued)

2011

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	32,779	32,779	-	-
Accounts receivable	5,971	5,413	-	588
Investments at fair value through profit or loss:				
Bonds and other debt securities - client owned	35,010	6,571	6,827	21,612
Diversified fund	60,399	17,730	5,414	37,255
Canadian income and dividend fund	62,705	30,336	7,504	24,865
Equity securities – client owned	17,814	17,814	-	-
Held to maturity investments:				
Fixed income funds	1,100,446	155,502	131,979	812,965
	1,315,124	266,145	151,724	897,255
Financial liabilities				
Accounts payable and accrued liabilities	51,026	6,868	-	44,158
Net assets attributable to beneficiaries of Estates and Trusts	1,361,969	1,361,969	-	-
	1,412,995	1,368,837	-	44,158

April 1, 2010

In thousands of dollars	Carrying Amount	Less than 3 months	3 to 12 months	>1 year
Financial assets				
Cash and cash equivalents	21,569	21,569	-	-
Accounts receivable	5,582	5,042	-	540
Investments at fair value through profit or loss:				
Bonds and other debt securities - client owned	47,688	7,349	2,019	38,320
Diversified fund	55,413	12,177	7,959	35,277
Canadian income and dividend fund	53,527	20,276	3,059	30,192
Equity securities – client owned	20,626	20,626	-	-
Held to maturity investments:				
Fixed income funds	1,082,769	162,723	109,609	810,437
	1,287,174	249,762	122,426	914,766
Financial liabilities				
Accounts payable and accrued liabilities	53,045	11,538	-	41,507
Net assets attributable to beneficiaries of Estates and Trusts	1,343,419	1,343,419	-	-
	1,396,464	1,354,957	-	41,507

Currently, a fluctuation in interest rates of 50-75 basis points is reasonably possible, considering the economic environment in which investment activities are conducted. The table below sets out the impact of a reasonably possible increase of 50-75 basis points in interest rates as at March 31. The impact of such an increase has been estimated by calculating the fair value changes of the fixed interest debt securities. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In thousands of dollars	2012	2011
Impact on client (Estates and Trust) and Administration fund assets	(1,060)	1,628

Notes to financial statements (continued)

5. Financial risk management (continued)

5.3 Market risk (continued)

5.3.3 *Equity price risk*

Equity price risk is the risk that the fair value of equity securities will fluctuate as a result of changes in the market price of equity instruments whether caused by factors specific to an individual investment or factors affecting all instruments traded in the market which, for international equities, includes changes in currency rates.

The Public Guardian and Trustee has mitigated this risk by engaging experienced investment managers and structuring their investment policies and goals, including limits on the holding of individual securities, limits on the investments in non-government debt, and defining asset component ranges to minimize the risk to clients' capital. As well, investments in financial instruments that are subject to changes in market prices, including equity securities, are undertaken only when the client can invest for a medium to longer term.

Investments are made in funds, namely the Diversified fund and the Canadian income and dividend fund that have the following policies for concentration of asset portfolios:

• Equity investments listed on Canadian stock exchanges	-	up to 50% of fund assets
• Equity investments listed on US stock exchanges	-	up to 15% of fund assets
• Equity investments listed on other stock exchanges	-	up to 15% of fund assets
• Unlisted equity investments	-	none

Investment managers further monitor concentration of risk based on counterparties and industry sectors. At the reporting date, equity investments are concentrated in the following industries:

	2012	2011	April 1, 2010
Banks/ financial services	33%	27%	36%
Information technology	12%	12%	11%
Retail	10%	10%	10%
Industrial and manufacturing	27%	28%	25%
Other	18%	23%	18%
	100%	100%	100%

Investment managers engaged by the Public Guardian and Trustee estimate future reasonably possible equity price fluctuations for equity securities on an individual investment basis. The table below sets out the impact of a reasonably possible decrease of 10% in the price of individual equity securities as at March 31. This analysis assumes that all other variables, in particular interest and foreign currency rates, remain constant.

In thousands of dollars	2012	2011
Impact on value of equity securities	(14,026)	(14,327)

A strengthening in the individual equity market prices of 10% as at March 31 would have resulted in a proportionate but opposite effect to the amounts shown above.

Notes to financial statements (continued)

5. Financial risk management (continued)

5.4 Fair value disclosures

The accounting policy for fair value measurements is detailed in accounting policy 3c(iii).

5.4.1 Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statements of financial position, are as follows:

2012

In thousands of dollars	**Estates and Trusts** **Carrying amount**	**Estates and Trusts** **Fair value**	**Admin Fund** **Carrying amount**	**Admin Fund** **Fair value**
Financial assets				
Cash and cash equivalents	38,366	38,366	211	211
Accounts receivable	3,723	3,723	2,477	2,477
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	41,562	41,562	-	-
Diversified fund	61,170	61,170	54,001	54,001
Canadian income and dividend fund	64,486	64,486	19,232	19,232
Equity securities – client owned	20,280	20,280	-	-
Held to maturity investments:				
Fixed income funds	1,134,771	1,147,453	-	-
	1,364,358	1,377,040	75,921	75,921
Financial liabilities				
Fixed Income Funds	-	-	126	126
Accounts payable and accrued liabilities	50,242	50,242	4,599	4,599
Net assets attributable to beneficiaries of Estates and Trusts	1,419,394	1,432,076	-	-
	1,469,636	1,482,318	4,725	4,725
2011				
Financial assets				
Cash and cash equivalents	32,599	32,599	180	180
Accounts receivable	3,766	3,766	2,205	2,205
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	35,010	35,010	-	-
Diversified fund	60,399	60,399	57,027	57,027
Canadian income and dividend fund	62,705	62,705	19,423	19,423
Equity securities – client owned	17,814	17,814	-	-
Held to maturity investments:				
Fixed income funds	1,098,853	1,103,496	1,593	1,593
	1,311,146	1,315,789	80,428	80,428
Financial liabilities				
Accounts payable and accrued liabilities	46,213	46,213	4,813	4,813
Net assets attributable to beneficiaries of Estates and Trusts	1,361,969	1,366,612	-	-
	1,408,182	1,412,825	4,813	4,813

Notes to financial statements (continued)

5. Financial risk management (continued)

5.4 Fair value disclosures (continued)

5.4.1 Fair values versus carrying amounts (continued)

April 1, 2010

In thousands of dollars	**Estates and Trusts**	**Estates and Trusts**	**Admin Fund**	**Admin Fund**
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and cash equivalents	20,904	20,904	665	665
Accounts receivable	3,588	3,588	1,994	1,994
Investments at fair value through profit or loss:				
Bonds and other debt securities – client owned	47,688	47,688	-	-
Diversified fund	55,413	55,413	57,723	57,723
Canadian income and dividend fund	53,527	53,527	17,678	17,678
Equity securities - client owned	20,626	20,626	-	-
Held to maturity investments:				
Fixed income funds	1,077,844	1,089,635	4,925	4,925
	1,279,590	1,291,381	82,985	82,985
Financial liabilities				
Accounts payable and accrued liabilities	43,146	43,146	9,899	9,899
Net assets attributable to beneficiaries of Estates and Trusts	1,343,419	1,355,210	-	-
	1,386,565	1,398,356	9,899	9,899

5.4.2 Fair value hierarchy

The Public Guardian and Trustee measures fair value using quoted market price (unadjusted) in an active market for an identical instrument.

5.5 Capital management

The Public Guardian and Trustee's operating capital is shown as the Administration Fund, which consists of various specific purpose funds and an unappropriated fund (detailed in the statement of changes in equity of the Administration Fund). The Public Guardian and Trustee is not subject to externally imposed capital requirements.

The Public Guardian and Trustee's objectives when managing its Administration Fund are to safeguard its ability to continue operations and provide adequate resources to service clients and safeguard clients' interests. The Public Guardian and Trustee expects its current capital (fund) resources, together with future cash flows from operations, are sufficient to support The Public Guardian and Trustee's ability to operate on an ongoing basis. The objectives have not changed during the year.

The Public Guardian and Trustee has invested part of its Administration Fund in the Diversified and Canadian Income and Dividend Funds. Investment income earned is, in part, used to replenish the various specific purpose funds for expenses incurred.

Notes to financial statements (continued)

	Estates and Trusts 2012	Estates and Trusts 2011	Admin Fund 2012	Admin Fund 2011
6. Accounts receivable				
In thousands of dollars				
Accrued revenue	-	-	2,471	2,166
Balances due from the Federal and Provincial Government, its Agencies and Crown Corporations	-	-	6	22
Balances due from the Administration Fund	2,738	3,207		-
Other receivables	985	559	-	17
	3,723	3,766	2,477	2,205
7. Other assets				
In thousands of dollars				
Art	4	15	-	-
Jewellery	812	748		-
Collectibles	283	169		-
Vehicles	616	477		-
Other	14,401	14,465	-	-
	16,116	15,874	-	-
8. Accounts payable and accrued liabilities				
In thousands of dollars				
Accrued expenses	2,396	2,055		1,606
Balances due to the Federal and Provincial Government, its Agencies and Crown Corporations	10,339	8,609	-	-
Balances due to Estates and Trusts	-	-	2,738	3,207
Other payables	37,507	35,549	-	-
	50,242	46,213	4,599	4,813

Notes to financial statements (continued)

9. Intangible assets

In thousands of dollars	Admin Fund 2012	Admin Fund 2011
Computer software - client management information system		
Cost – beginning and end of the year	11,633	11,633
Accumulated amortization – beginning of the year	4,653	2,327
Amortization for the year	2,327	2,326
Accumulated amortization – end of the year	6,980	4,653
Carrying amount – beginning of the year	6,980	9,306
Amortization for the year	2,327	2,326
Carrying amount – end of the year	4,653	6,980

10. Fees charged by the Administration Fund to Estates and Trusts

In thousands of dollars	Admin Fund 2012	Admin Fund 2011
Client trusts	16,081	15,516
Minors	2,753	2,794
Deceased estates	2,766	3,594
Litigants	1,852	1,609
Court-appointed litigation guardian legal services	167	92
Cemetery trusts	185	183
Charity trusts	138	141
Forfeited corporate assets/corporate trusts	35	22
	23,977	23,951

Notes to financial statements (continued)

11. Interest income

11.1 Interest income - other external sources

In thousands of dollars	Estates and Trusts 2012	Estates and Trusts 2011	Admin Fund 2012	Admin Fund 2011
Earned on investments at fair value through profit or loss				
Bonds and other debt securities-client owned	2,054	1,693	-	-
Diversified fund	1,889	1,689	1,835	1,832
Canadian income and dividend fund	2,506	2,189	780	715
Earned on loans and receivables				
Accounts receivable	210	760	-	-
	6,659	6,331	2,615	2,547

11.2 Interest (expense) income from OPGT fixed income funds

In thousands of dollars	Estates and Trusts 2012	Estates and Trusts 2011	Admin Fund 2012	Admin Fund 2011
Earned on unimpaired held-to-maturity investments				
Fixed income funds	37,082	37,170	(1,176)	179

12. Gain/loss on investments

12.1 Net realized gain/(loss) on sale of investments

In thousands of dollars	Estates and Trusts 2012	Estates and Trusts 2011	Admin Fund 2012	Admin Fund 2011
Realized on sale of investments at fair value through profit or loss				
Bonds and other debt securities-client owned	116	69	-	-
Diversified fund	1,765	855		575
Canadian income and dividend fund	1,177	59	436	19
Equity securities-client owned	707	1,138	-	-
	3,765	2,121	2,201	594

Notes to financial statements (continued)

	Estates and Trusts 2012	Estates and Trusts 2011	Admin Fund 2012	Admin Fund 2011
12. Gain/loss on investments (continued)				
12.2 Net unrealized gain/(loss) on investments				
In thousands of dollars				
Unrealized gains/(loss) on investments at fair value through profit or loss				
Bonds and other debt securities-client owned	(231)	330	-	-
Diversified fund	(2,069)	4,017	(2,355)	4,325
Canadian income and dividend fund	(1,167)	3,142	(407)	1,012
Equity securities-client owned	(55)	1,700	-	-
	(3,522)	9,189	(2,762)	5,337
13. General investment expenses				
In thousands of dollars				
Investment management fees	-	-	843	818
Brokerage fees	-	-	117	74
Custodian fees	-	-	278	370
Administration fees	-	-	172	194
Bank charges	-	-	293	289
	-	-	1,703	1,745
14. Personnel expenses				
In thousands of dollars				
Salaries and wages	-	-	30,443	29,630
Compulsory employer contributions	-	-	1,880	1,831
Other benefits	-	-	1,607	1,993
Termination benefits	-	-	371	120
	-	-	34,301	33,574

15. Related party transactions

The Government of the Province of Ontario, its Agencies and its Crown Corporations are related parties to the Public Guardian and Trustee. Under IFRS, a reporting entity is exempt from the disclosure requirements of IAS 24, *Related Party Disclosures* in relation to related party transactions and outstanding balances, including commitments, with a government that has control, joint control or significant influence over the reporting entity and another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The Public Guardian and Trustee has utilized this exemption in preparing these financial statements.

Notes to financial statements (continued)

15. Related party transactions (continued)

Transactions with the Government of the Province of Ontario, its Agencies and its crown Corporations are carried out in the normal course of business and include transactions and outstanding balances relating to the following activities, all of which have been recognized in these financial statements:

a) Investments in certain financial instruments that are issued by these related parties;
b) Expenditure on certain services provided by these related parties; and
c) The Province of Ontario provides partial funding for the operations of The Public Guardian and Trustee. During the year the Province allotted $39,796,407 in funding and recovered $26,534,426, for a net provision by the Province of $13,261,980 (2011: $13,256,336).

In addition, in the normal course of business, the following transactions are entered into with these related parties at no charge to the Public Guardian and Trustee and therefore are not reflected in the financial statements:

a) Staff of the Public Guardian and Trustee are employees of the Ontario Public Service which provides pension benefits to its employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund. The Ministry of Government Services (MGS) funds the employer's contribution to the Pension Funds;
b) The cost of post-retirement, non-pension employee benefits are paid by MGS;
c) The Public Guardian and Trustee occupies leased premises paid for by the Ministry of the Attorney General (MAG);
d) MGS provides payroll and payment processing for the Public Guardian and Trustee; and
e) There are related party balances between Estates and Trusts and the Administration Fund.

Key management personnel compensation

Staff, including key management personnel are employees of the Ministry of the Attorney General, Ontario Public Service (OPS). All management compensation is in accordance with Management Board of Cabinet Compensation Directives and compensation follows approved OPS compensation practices. This includes public disclosure for all individuals earning more than $100,000 in a calendar year.

The benefit plans do not include any specific post –employment, termination or other long term benefits but as noted in Note 3(g) (ii) the cost of these benefits are funded by the Ministry of Government Services.

In addition to the salaries and mandatory employer contributions to federal government programs, senior managers also participate in various group life, health and dental plans for which the employer shares the premiums.

Key management personnel compensation comprised the following:

In thousands of dollars	Admin Fund 2012	Admin Fund 2011
Salaries and Wages	1,078	1,045
Employee benefits	20	17

16. Funds Escheated to the Crown

Deceased Estates include estates administered under the *Crown Administration of Estates Act* and the *Estates Act*. The Public Guardian and Trustee is authorized by the *Escheats Act* to take possession of property reverting to the Crown under the *Succession Law Reform Act*. After a period of ten years, any property so received by the Public Guardian and Trustee which remains unclaimed is required to be transferred to the Consolidated Revenue Fund (CRF) of the Province of Ontario. Such property transfers to the CRF are included in the statement of changes in net assets attributable to beneficiaries of Estates and Trusts. During the year, escheats from Deceased Estates totalling $800,659 (2011: $2,269,532) were transferred to the CRF.

Notes to financial statements (continued)

16. Funds Escheated to the Crown (continued)

Under the *Business Corporations Act* and the *Escheats Act*, the Public Guardian and Trustee may take possession of assets of dissolved corporations which have become forfeited to the Crown. Such property transfers to the CRF are included in the statement of changes in net assets attributable to beneficiaries of Estates and Trusts.

17. Contingencies and commitments

The Public Guardian and Trustee is involved in various legal actions arising in the normal course of business operations, the outcome and ultimate disposition of which are not determinable at this time. Liabilities for any settlements will be recognized if and when the criteria for recognizing provisions is met (see accounting policy note 3 (l)).

18. Subsequent events

There have not been any events subsequent to March 31, 2012 that would impact the information presented in these financial statements.

19. Explanation of transition to IFRS

As stated in note 2(a), these are the first financial statements of Estates and Trusts and the Administration Fund prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended March 31, 2012, the comparative information presented in these financial statements for the year ended March 31, 2011 and in the preparation of an opening IFRS statement of financial position at April 1, 2010 (the date of transition). The opening IFRS statement of financial position has been restated by applying IFRS retrospectively. The retrospective application of IFRS has not resulted in adjustments. No recognition or measurement differences have impacted the opening IFRS and comparative statements of financial position, the statements of changes in net assets or changes in equity and the comparative statements of comprehensive income and statements of cash flows. However, additional financial statement disclosures have been made in accordance with the requirements of IFRS. Presentation adjustments have been made in the statements of comprehensive income in order to comply with the new presentation format under IFRS. However, these presentation adjustments did not have a net impact on the reported increase in net assets attributable to beneficiaries of Estates and Trusts or the total equity for the Administration Fund.

The only other change is that Cash and cash equivalents were classified under Canadian GAAP as held for trading. Under IFRS, cash and cash equivalents are classified as loans and receivables. This change in classification did not result in any measurement adjustments.

THE WORKPLACE SAFETY AND INSURANCE BOARD

The Workplace Safety and Insurance Board of Ontario Financial Statements for the year ended December 31, 2011 were not available at the time of printing. When available, they will be posted to the website: www.fin.gov.on.ca/english/ .

LOSSES DELETED FROM THE ACCOUNTS

(Under the *Financial Administration Act*)
for the year ended March 31, 2012

MINISTRY	**2011-12**
REVENUE	$602,436,066.09
TRAINING, COLLEGES AND UNIVERSITIES	$116,146,419.77
COMMUNITY AND SOCIAL SERVICES	$86,325,878.87
ATTORNEY GENERAL	$5,010,401.56
FINANCE - MOTOR VEHICLE ACCIDENT CLAIMS FUND	$3,983,262.73
INFRASTRUCTURE	$987,188.62
TRANSPORTATION	$856,715.57
HEALTH AND LONG-TERM CARE	$165,898.00
CHILDREN AND YOUTH SERVICES	$118,144.59
MUNICIPAL AFFAIRS AND HOUSING	$95,981.12
NATURAL RESOURCES	$71,984.80
COMMUNITY SAFETY AND CORRECTIONAL SERVICES	$71,401.70
GOVERNMENT SERVICES	$59,788.78
OFFICE OF THE ASSEMBLY	$36,637.21
LABOUR	$14,564.25
EDUCATION	$5,900.01
NORTHERN DEVELOPMENT, MINES, AND FORESTRY	$3,390.07
AGRICULTURE, FOOD AND RURAL AFFAIRS	$679.36
TOTAL	$816,390,303.10

REVENUE REMISSIONS

Details of Remission granted under the *Financial Administration Act*
for Revenue and Other Debt for the year ended March 31, 2012

No Remissions were made in the fiscal year ended March 31, 2012.

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